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DAILY BREAD FOOD BANK

MODELS FOR A DAILY BREAD FOOD BANK

AUGUST 1983

Study carried out in cooperation with and funded by Metropolitan Community Services Department and Ontario Ministry of Community and Social Services

P.F. Oliphant + R.C. White

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37 Amelia Street Toronto M4X 1E3 (416)924-2387

August 16th, 1983

Rev. Robert Hagler, O.H.C.,
Chairman,
Daily Bread Food Bank,
Interim Board,
49 Wellington Street East,
4th Floor,
Toronto, Ontario
M5E 1C9

Dear Father Robert:

We are pleased to submit our report "Models for a Daily Bread Food Bank", prepared in accordance with your terms of reference as modified by our accepted proposal of April 29, 1983.

The report proposes two models of a food bank for your consideration. One offers the opportunity of optimizing the entire system, comprising all of the agencies providing food to the poor, their suppliers, and their governmental funders, Metropolitan Toronto Community Services and the Ontario Ministry of Community and Social Services. The other model suggests how a group of small agencies might organize themselves in a co-operative venture to increase the amount of food flowing through them to the needy.

Three early chapters of the report summarize the research conducted for the study. The first reviews the activities of the agencies serving the needy in terms of their approach to supply, storage and transportation of food and of their perception of their own demand for food and of the needs of their clients. The second outlines how suppliers handle surplus or waste foods, and what they consider an appropriate way of assisting a potential food bank. It also sets out how agricultural surpluses are handled in Canada. The last research-oriented chapter deals with eight other "food banks" in Canada and the United States - their similarities and differences, the political environment within which they operate and the philosophy governing their operation.

This report is based on data supplied by about forty agencies who serve the needy, fifty food supply companies, the Ontario Ministry of Agriculture's Economics Branch and the Federal Agricultural Stabilization Board. The report is the result of the collaboration of our firm with members of the Steering Committee, with a number of volunteers already associated with the Daily Bread Food Bank, and with Mr. G. Gayton White, an associate consultant specializing in transportation and distribution logistics. To all who supplied information and assisted in the development of this report, we express our appreciation.

Yours truly,

P. F. Oliphant
Partner

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CHAPTER ONE - INTRODUCTION

This report "Models for a Daily Bread Food Bank" has been prepared in accordance with terms of reference dated April 15, 1983, as modified in the consultant's proposal, dated April 29, 1983. The objectives of the study, as set out in the terms of reference, are:

1. "Assess the potential scope of a food bank operation in Metropolitan Toronto, and

2. "Develop operational models representing the most effective method of ensuring the food needs of participating agencies are accommodated within available surplus food supplies."

The proposal accepted these objectives, but included two limitations:

1. "The possibility must be accepted that no scope exists for a food bank operation in Metropolitan Toronto, and

2. "Since surpluses are intrinsically unpredictable, no model can be developed which will ensure a matching of supply and demand; at most, a high degree of confidence can be placed in models developed in this assignment."

The research conducted for this study indicated that two models of a food bank operation could be proposed which would reflect the intention of the terms of reference. However, the research also showed that certain assumptions implicit in the terms of reference required revision. The amount of food which might be described as "surplus" is not as great as had been believed. The needs of the agencies are more difficult to define than had been thought. Differences between the two proposed models reflect agency differences which perhaps it was at first thought were not as great as they proved to be.

To gain a better understanding of relevant demand and supply considerations, a number of volunteers eager to help the Daily Bread Food Bank, along with the consultants, conducted an extensive interview and survey program. Lists of the agencies surveyed and of the food suppliers interviewed appear in Appendices A and B respectively. The results of this research were less conclusive than had been hoped; agencies keep limited records and suppliers generally refuted the "conventional wisdom" about surpluses. Nevertheless, the findings provided a sound basis for planning.

A Steering Committee was established by the Daily Breat Food Bank and was charged with overseeing the progress and direction of the study. It was under the chairmanship of Rev. Robert Hagler, and included Sr. Marie Tremblay and Messrs. Mark Macgowan, Michael Meraw, David Walsh and Lorimer Wilson of the Daily Bread Food Bank organization, along with Ms. Shirley Hoy and Mr. Wilfred Boyce of Metropolitan Toronto Community Services, Mr. Paul Heung of The Ontario Ministry of Community and Social Services, and Mr. Anthony J. Stampfer of the Ministry of Agriculture and Food.

The consultants summarized their findings with respect to the agencies in a meeting with the Steering Committee on June 14. Findings about the supply side were summarized in a presentation to this group on July 12. At that meeting a system model was presented which would draw together all of the agencies in a food bank operation that would optimize the flow of surplus and donated food within the entire food service agency network. On July 26 a second model was presented which limited its scope to consideration of how a group of small agencies might optimize the flow of surplus and donated food among themselves.

The form of the report reflects the sequence of Steering Committee presentations. Chapter Two presents the findings of the study team with respect to the agencies, both large and small, which were interviewed or surveyed by telephone questionnaire during the course of the study. The Chapter presents what can be known about "demand" for surplus and donated food.

Chapter Three similarly describes the situation on the supply side. It indicates the difficulty of quantifying surplus food and the attitudes of suppliers to a potential food bank.

Clearly, other cities' food bank operations are relevant in designing a model for Metropolitan Toronto. Chapter Four presents in broad outline what has been learned about food banks in Vancouver, Calgary, Edmonton, Regina, Kitchener, Seattle, Detroit and New York. This is by no means a comprehensive review of the food banks in these municipalities. However, the study yielded certain insights which it is important to state before presenting the proposed models.

Chapter Five proposes how demand and supply may be brought together in an optimal fashion to the benefit of the ultimate recipients of surplus and donated food. The chapter ends with a comparison of the two models: each satisfies different objectives, neither is better than the other, but the differences between them are substantial.

CHAPTER TWO - AGENCIES

About forty-five established agencies are known to provide food to the needy. Most provide prepared meals from one to three times a day; some give their clients prepared meals or hampers; a small number give out only hampers. They obtain their supply of food both from donations and by direct purchase. Their storage and transportation arrangements differ; that is, each has its own logistics arrangements. Each has identified a specific demand and meets it in a unique way. Appendix C provides data on the food service operations of agencies in Metropolitan Toronto.

It appears that agencies provide meals to about 3,000 persons per day in Metropolitan Toronto. About 500 of these persons are in residence. More than half of the 3,000 appear as recipients of one meal per day from one of the large hostels. Whether the same persons are to be found in the figures for more than one hostel cannot be determined. Presumably some who have lunch at one agency also have dinner at another. It is likely also that some who receive meals at the large agencies avail themselves of drop-in opportunities at agencies that are open all day. There is some form of communication among agencies to prevent gross abuse of their meal service, but to what extent it prevents "double counting" in their statistics cannot be determined.

About three-quarters of the eighteen surveyed agencies provide hampers on a year-round basis. Some of these are open five days a week; a slightly larger number give out food only on an emergency basis. Most deal with a relatively small number of people. Only a very few agencies are known to provide a large amount of food - St. Luke's Anglican Church and the Scott Mission; each week these two agencies give out over 1,600 hampers of general groceries. Some hampers are distributed by the Good Shepherd Refuge, but the amount has not been quantified. Several of the agencies provide hampers only periodically, that is, at Christmas, every fourth Tuesday of the month or at other occasions.

This chapter is a portrayal of these agencies' activities in the three areas of supply, logistics and demand. Before dealing with those topics, a section comments on the survey techniques used in the study and on certain definitional problems, an understanding of which is necessary to assessing both the value and the limitations of the survey's data.

Survey

Agencies ministering to the poor may be broadly separated into two classes, those who provide meals on their premises and those who supply families and individuals with food for preparation in their own dwellings. Only a few agencies offer both services on a regular basis. Thus, for simplicity of presentation, this report speaks of "meal providers" and "hamper providers" as distinct classes.

A number of institutions serving meals might have been thought likely to benefit from a food bank program; hospitals are an example. However, discussion with one hospital food supervisor showed that most hospitals prepare many more daily meals than the largest agencies. They are thus in a totally different class of operation. As well, hospital quality requirements are so stringent that the receipt of donated food is discouraged. Small exceptions may occur, but it was judged appropriate to exclude hospitals and similar institutions from the scope of this study. The agencies included in this study differ from such institutions because the former are concerned with emergency support rather than with long-term maintenance or with medical emergencies.

The agencies within the scope of this study consider food as a major part of their programs. These agencies serve largely transient clients who may appear for as little as an hour to eat a meal or for at most six months to regain their strength after some trauma. To receive food may be the only reason a client appears on the agency's premises.

Another distinction that is used frequently in this report is that between "large" and "small" agencies. This is a very imprecise distinction, yet it reflects generally accepted feelings about the agencies. Thus, the large agencies have a substantial physical plant. They serve mainly the "single displaced person". And they serve a great many of them each day. All of them are religious institutions.

The four institutions which have been categorized as large agencies are Good Shepherd Refuge, The Salvation Army, (through a number of facilities such as the Sherbourne Street Hostel and Harbour Light), Scott Mission, and Fred Victor Mission.

Early in the study, each of these large agencies was very open to being interviewed; their cooperation is greatly appreciated. However, the Salvation Army, after careful consideration of what it then knew about the Daily Bread Food Bank's intentions, decided that it did not wish to be further involved. As a result, information is limited on the food activities of the Salvation Army and none of the Salvation Army's activities are reflected in tables found in the appendices.

Each of the large agencies deals weekly with hundreds of people; each of the three survey agencies serve over 3,000 meals per week. Many of their clients who arrive for help may never be seen again. The agencies are an important force in the community at large. Two of them, as will be seen later, are perceived by large food corporations as of particular significance in their donations programs.

All the other agencies are referred to in this study as small. All meal providers in this group serve fewer than 2,500 meals per week; eighty per cent serve fewer than 1,000 meals per week. Terming these agencies as small is merely a convenience of classification. Indeed, many have substantial buildings in which they house a number of people during critical periods in their lives. This includes agencies oriented to particular immigrant groups, to women in difficulty, and to men and women requiring support because of drug or alchohol addiction problems. Also, among this group there are agencies which like the large ones, provide food and hostel accommodation, but which are perceived as perhaps less permanent, less institutionalized or more local in their ministry.

To conduct the survey of agencies whose results are reflected in this chapter, different approaches were taken to the large and the small agencies. The consultants conducted interviews with each of the large agencies and a few of the small agencies. To gain data on the other small agencies, six volunteers conducted a survey in accordance with procedures designed by the consultants. In all cases, the agencies were assured that their data would, as much as possible, be kept confidential.

These volunteers included Mr. Wilfred Boyce, a member of Metro Community Services staff, who administered the small agency survey program, and the following volunteers who carried out the survey: Katherine Butkovich, Charles Forbes, Lillian Forbes, Charlotte Smith and Mark Wade. Their assistance is greatly appreciated. Each of these volunteers contacted several of the food-service agencies on a list prepared from Metro Community Services files. They worked from a prepared questionnaire, a copy of which is found as Appendix D to this report. Prior to its use, the questionnaire was reviewed and approved by members of the Steering Committee.

The list provided to the survey team did not include approximately 20 "soup kitchen" or hamper service operations created during the winter at a variety of churches and other locations. Most of these operations ceased after the winter had ended. The findings reflected in this chapter therefore represent the situation only among the established agencies.

Information was obtained on 37 of these agencies (listed in Appendix A). The appendix indicates which of the agencies are meal providers and which are hamper providers. As will be shown later, many of those indicated to be hamper providers are so only because they make emergency gifts of food, usually to former clients or residents.

Supply

This section of the chapter comments on the sources of food supply of the meal and hamper providers respectively and then closes with a review of the attitudes of the agencies to their supply problems.

Meal Providers

Appendix E sets out the percentages of donated food to total food costs tabulated by the number of meals served by surveyed agencies. The table shows that donated food accounts for nearly one quarter of the food used by small agencies which provided data. However the smallest of these agencies receive only minimal amounts of donated food.

Analysis of individual returns shows that the small agencies which serve three meals a day to a stable number of residents, as opposed to transients, generally have a very low reliance on donations of food as a source of supply. Two small hostels indicated that a substantial amount of their food was provided by donation, but the remainder of the nearly twenty residential agencies receive no more than four per cent of their food supply in the form of donations.

The Fred Victor Mission, a large agency, provides meals both to its elderly residents and to transients. In both cases, the Mission depends on purchases of food rather than on donations. As suggested later, this may reflect a unique attitude to its role in the agency system.

Agencies who provide one or at most two meals to transients rely heavily on donations is very high. Although the percentage of donated food used by the Good Shepherd Refuge is not available, it is known that the Refuge depends heavily on an annual collection of canned food from Catholic schools and churches. Interviews with suppliers indicated that the Salvation Army is likely a major recipient of donated food. Only one of these agencies appears not to depend on donated food but this data may reflect a lack of understanding between the agency and the interviewer during data collection.

Hamper Providers

Appendix F sets out the percentages of donated food to total food costs for those agencies that give out hampers year-round and on an occasional basis. Over one half of the food given out by the seven year-round hamper agencies covered in this table is donated.

Most of the smaller agencies provide emergency hampers only as an adjunct to their meal provision services. Often they do so only for previous clients in difficult circumstances. As a result, their supply sources reflect a dominant orientation to meal rather than hamper provision; as noted above, these agencies receive very little donated food.

The larger hamper providers rely greatly on donated food. At the Scott Mission, the largest of these agencies, donated food provides the basis for hamper preparation. Purchased food complements it to provide more balanced nutrition to the recipient.

The activities of the Society of St. Vincent de Paul (SSVP) and a few other agencies which usually give food vouchers rather than food hampers to the poor have not been reflected in the commentary above. The report of SSVP's Christmas program showed that 1,200 families received hampers or vouchers during the Christmas season in 1982. This represented a value of approximately $50,000, considerably less than half of which was represented by the value of turkeys and other Christmas fare accompanying food vouchers. Other agencies, notably the Salvation Army, are also involved in food voucher distribution. No data are available to estimate their amount, but the total daily value of such non-food donations must be quite large.

Attitudes

The attitudes of the large and the small agencies to their food supply problems differ markedly. In general, the large agencies are content with their present arrangements. The small agencies would welcome relief from the burden of time and money associated with acquiring food.

Thus, the Salvation Army's attitude to a potential food bank is connected with its views about its traditional suppliers. It is not concerned that these would be disloyal and divert donations from the Salvation Army. Its confidence in its suppliers' loyalty expressed itself in offering to transfer some of its occasional surpluses to the food bank. Rather, it is concerned about confusing its suppliers by appearing to solicit both directly and also indirectly through a food bank.

The other large agencies expressed a similar confidence in both the loyalty of their sources of supply and in continuing to receive adequate supplies from them. For some agencies, the relationship with the supplier is a form of ministry. That is, they feel that their solicitation raises the consciousness of the supplier both with respect to the need being served by the agency and to the "Call" to which the agency is responding. Supplier relations is therefore something to which they pay a great deal of attention.

It is apparent, too, that the large agencies co-operate to spread excessive contributions among themselves and to smaller agencies. They can thus be seen as food banks in their own right. The Salvation Army appears to play a particularly important role in this function.

Among the small number of suppliers mentioned by small agencies, there were ten mentions of other agencies in related food distribution activities. There were seventeen mentions of local sources of supply including parishioners of affiliated or local churches. There were only four mentions of national food processors. These findings indicate the importance of existing agencies in a kind of food bank network. They also emphasize the local nature of many of the small agencies who have built up valuable contacts with food sources in their vicinity.

Logistics

The term logistics usually includes all of the functions necessary to move food from the supplier to the ultimate recipient - transportation, storage and distribution. In this study the meaning of the word logistics is limited to the first two of these functions, since by distribution is meant the delivery of food by agencies to clients, something that takes place without the need for special handling facilities.

Appendix G sets out the reported storage capacity for thirty-five agencies according to the number of meals they serve per week. It shows that the small agencies more often have limited storage than the large agencies. Cooler storage space is in shortest supply in all agencies, with the exception of the large agencies serving over 2,500 meals a week. Appendix H sets out in terms of weeks of storage the estimated storage capacity of thirty-five agencies.

What is surprising is the amount of freezer storage within the agencies. Some have large walk-in freezers and only relatively few agencies have no freezer capacity.

By contrast, there is very little cooler storage among the small agencies serving fewer than 2,500 meals per week. This probably reflects not so much a lack of storage in relation to requirements as the operating preferences of the agencies. Most perishables - meat, vegetables, dairy products - consume more time to handle and prepare than frozen or tinned goods. Their nutritive value can be found in other forms of food, and their shelf life even in coolers is short.

Open storage is generally plentiful, although there are some limitations. These appear to be associated with drop-in or "living room" operations.

Commercial storage facilities are used by two of the large agencies and possibly by the Salvation Army. It appears that the cost of commercial storage is borne sometimes by the agency and sometimes by the supplier.

It seems apparent that, in the aggregate, storage capacities are more than adequate to meet the needs of all of the agencies. None of the respondents to the agency survey mentioned storage as a concern. It therefore seems fair to conclude that storage facilities of agencies are adequate.

Appendix I sets out the transportation resources of the agencies. It indicates that agencies rely heavily on their own vehicles. However, many agencies depend on volunteers to carry goods from suppliers to the agencies' premises and some depend almost entirely upon suppliers' delivery services.

The survey found only one agency concerned about transportation and its concern was the reverse of what might have been expected. It indicated some skepticism that a food bank would provide as adequate transportation as its present arrangements now gave it.

The agencies' present transportation arrangements therefore appear generally to be adequate. Some of the large agencies have vans which they use not only for their own purposes but also to transport food to smaller agencies. It might be expected that such contributions of services would continue to play a significant role in the agencies' logistical arrangements.

Demand

Nineteen of the small agencies indicated a demand for more food donations. In each case, it appears from their responses that this demand is not intended to meet client needs but to meet agency needs. Typical comments were:

"Food banks would assist in reducing overall food costs."

"Would assure provision of food for agencies whose food supply is not always constant."

"More variety of food and a little more."

"Food bank could provide more variety and more nutritional fillings for sandwiches."

"Dietary problems solved. No pork for Muslims."

"Main advantage would be the saving in expense and time - would free up staff to use time more beneficially."

"Would free up money for use in other areas - i.e., child care, residence travel funds, personal care items".

Such typical comments indicate the agencies' desire to do "a better job" to meet their clients' needs, but do not suggest that there is a client need for basic food which these agencies are not now able to fulfil. To some extent, they indicate a desire to shift budgetary funds from food to counselling or other support services of advantage of their clients.

The assumption that a food bank would meet this demand at a saving of time or money was rejected by two small agencies. They felt a food bank would add cost, rather than reduce it. Another agency said that it had more than it could use and would prefer food to be directed to those who needed it.

The large agencies and one of the small agencies explicitly pointed out that they have no need for additional food from a food bank. The remaining agencies are silent on the issue of demand.

In summary, there seems to be a strong desire among the agencies for donations of food to liberate time or money for other purposes. All of these are small agencies.

Whether there is a large unmet client need for food is extremely difficult to assess. The large agencies do not appear concerned that there is a need that they are unable to meet through their present supply arrangements. Six small agencies believe that there is a need that they could meet only with greater supplies of food. Two of these are organizations with residential programs, who would like to be able to provide more food to their "graduates". Others mention the need in the following ways:

- "Would give scope for more than 'Band Aid' help."

- "Advantage for single mothers who live in apartments with high rents."

- "Could extend their services - to provide daily meals at the centre - to help more than the six to eight families they are presently providing with food each week. Could perhaps address a particular problem at this centre, that of providing Pampers and milk to single mothers."

- "If (the food bank) is conceived as open to individuals, the 'nearly' poor would be able to have a more adequate diet".

Contrary views were expressed by one agency: "Don't believe in food shortage. Just lack of money. Would perpetuate welfare state". Another small agency said that donated food would interfere with their program of teaching budget skills to their clients, something they do by having them shop for their community. And the Fred Victor Mission has publicly stated its objection to hand-out programs because they, in its view, diminish the pressure on the government for more adequate welfare systems.

On balance, the silence of so many agencies on the question of need, the rejection by others of its relevance to consideration of food bank feasibility, and the antipathy of some others to a food bank - all suggest only that it would be imprudent to conclude that there is or is not an unmet client need.

The only conclusion with which this section can end, therefore, is that there is a considerable demand among the small agencies for less costly food to ease budgetary constraints on programs for their existing clientele. This expresses itself in the anticipation that access to supplies from a food bank would reduce their expenditures of time and money and allow them to divert resources to other programs.

CHAPTER THREE - SUPPLY

The American press has suggested that twenty percent of food produced in the United States is wasted. One of the major purposes of a study of possible supply sources for a Daily Bread Food Bank was to test this belief, to determine the extent of waste within the food industry and the ways in which this waste is disposed of. In addition, it sought to determine the attitudes of those in the food industry to the establishment of a food bank in Metropolitan Toronto.

This chapter first looks at the free enterprise food industry. This section of the report sets out the techniques used to get information on the industry, and examines production constraints within the industry, the industry's practices for disposing of waste food and, finally, the industries attitudes to food banks. The next section deals with marketing boards, their relationship to the food industry and the practices they follow in disposing of surplus or waste food. The chapter ends with conclusions about the supply of food for a possible food bank in Metropolitan Toronto.

Food Industry Survey

The number of potential sources of waste food within Metropolitan Toronto is very large. It includes the thousands of small grocery stores and restaurants, and the relatively small number of large corporations having interests in many aspects of the food industry.

The study of supply sources for a food bank concentrated on the latter group, the "major players". The "Proposal for Consultation" submitted to the Daily Bread Food Bank included as an appendix a list of potential Canadian food suppliers which was extracted from the Financial Post 500, published in June, 1982. To this list were added the names of other businesses in the food industry which were supplied by Mr. Anthony J. Stampfer of the Market Development Branch of the Ministry of Agriculture and Food of the Government of Ontario. Many of the corporations on that list participated in a Christmas hamper program which was organized by the Ministry in 1982.

After eliminating those corporations which did not have offices in Metropolitan Toronto, the composite list contained the names of approximately 90 suppliers located in Metropolitan Toronto which were judged to be representative of the industry. About 65 of these suppliers were contacted by letter or by telephone, either by one of the consultants or by a volunteer associated with the Daily Bread Food Bank, Mr. Lorimer Wilson, who has had extensive working experience in the food industry.

About fifty of these suppliers consented to interviews. They are listed in Appendix C. Of these, twenty-three were companies included in the Financial Post 500 list of the largest corporations in Canada. Twenty-one were members of the Grocery Products Manufacturers of Canada (GPMC), a major industry association. With one or two exceptions, initial contact with the corporations was made through their chief executive officers or the senior employee resident in Metropolitan Toronto. In many instances, this person delegated another officer within the organization to respond to our inquiry. These delegated officers tended to be in corporate relations (public and government relations, corporate donations, etc.), finance and administration, sales or marketing.

This aspect of the research took longer than anticipated due in large measure to the difficulty of being able to arrange a suitable time to speak with the appropriate corporate officer. Once contact had been made, corporate officials, for the most part, were generous in giving frank and open answers to inquiries relating to this study.

Analysis of twenty-nine of the corporations that provided input into the study showed that they had interests in all aspects of the food business - fruit, vegetables, livestock, poultry, fish and dairy products; farming, canning and processing; bakeries, biscuits, confections and soft drinks; and wholesaling and retail stores. The companies' Standard Industrial Classifications (SIC) and the SIC of other organizations in their corporate groupings provided the basis for this analysis. Some of these companies are "giants". For example, Nabisco Brands Ltd. which incorporates Christie, Brown and Company, Limited and Standard Brands

Limited, this year acquired Associated Biscuits of Canada Ltd., the manufacturer of Peek Freen and Dad's cookies. The interests of some large companies in the food industry extend beyond that industry. For example, George Weston Limited, well known for its interests in the food processing and food distribution businesses, has major interests in the forest resource industry. Seventeen of the companies were under foreign control - primarily from the United States.

Food Industry Production Constraints

The survey disclosed that a number of constraints operate within the food industry to restrict the amount of surpluses and waste available to a food bank. Four of these are particularly important - health standards, production controls, labeling practices and overall profitability.

Health Standards

Health standards applying to food are established by the federal, provincial and municipal governments. Each level of government has adopted certain inspection processes to ensure that its standards are met. The legislation is such that a corporation producing food is liable for any health problems created at any time by that food.

To the food industry, these laws are absolute. They are adhered to strictly. One or two interviewees felt that health inspectors are, from time to time, overly zealous in applying the law; they declare food inedible which is likely acceptable for human consumption. However, because of the high liabilities for error, an inspector's decision is always taken as final.

The extent to which these "lifetime" laws may go is illustrated by the story of a commercial caterer. This company has to take special steps to protect its kitchen garbage. It would be liable, even if its garbage was broken into, if those stealing food from the garbage became ill.

Production Controls

Computer technology and advanced management systems have enabled the food industry to introduce sophisticated techniques for production planning and inventory control. Time after time, it was said that food producers can determine with a great degree of accuracy the demand for specific products in the marketplace. Their systems help the industry prevent inventories from exceeding optimal limits. Techniques adopted for the introduction of new products into the marketplace are such that risks of over-production are minimized. Thus, the amount of surplus food produced by the industry is minimal.

Labelling

Food producers have a great number of labels that they can use for their food production. Top-line, quality labels - such as Heinz, Aylmer, Del Monte, Green Giant and Campbell's - are well known and recognized among consumers. However, the producers of each of these labels have long lists of "seconds" labels which can be used for products which do not meet quality control standards for the top-line labels. A representative of a food processing association suggested that from time to time, canners overcook or burn creamed corn; such a product, he felt, would be available to a food bank. Canners, however, reported that such a product would be given a "second" label and marketed in the usual way, even if at a lower price than originally intended.

Food producers are extremely concerned about protecting brand name loyalties. They take many measures to ensure that the public will not switch brands. This determination to protect brand names was demonstrated in the following anecdote. A company tested a new product in the market and found that it had only low market acceptance. The company decided not to market the product and gave the remaining inventory to charity. Those to whom the charity gave this product complained of its quality to the manufacturer. The manufacturer then vowed that no more product would be disposed of in this way again, because of the bad effect such complaints could have on its other product lines.

Overall Profitability

Both processors and distributors of food survive on high turnover and low profit margins, by comparison with other industrial sectors. When margins are tight, cost controls are the key to increasing profitability. Elimination of waste is an important way of controlling costs. A confection manufacturer took great pride in the fact that his company's waste was only about half of the industry average; his company's profitability was accordingly better.

Edible Waste Food And Its Disposal

One must therefore conclude that the food industry generates little edible waste or surplus food. Many, when asked if their companies produced any edible waste or surplus food, replied with an unequivocal "No!" Some, while pointing out that their companies produced no waste or excesses, suggested that other segments of the industry might produce food that would be satisfactory for a food bank. Those admitting to producing edible waste or surplus food were universally unable or unwilling to state quantities or amounts of this food or the frequency with which it resulted from their operations. Surplus or waste foods are produced as a result of mistakes and the food industry seeks to minimize its errors in this area.

The food industry follows a number of practices in disposing of those edible waste or surplus foods. These are discussed below. A few companies were unaware of the practices they followed in disposing of edible wastes and surpluses and, apparently in response to this study's questions, established task forces to determine practices and policies.

Most of those interviewed indicated that they recycled and repackaged food which might otherwise be waste or surplus. If too much or too little salt is added or an ingredient left out of food during production, the product is often recycled. Processed meats and sausages, for example, which do not meet quality standards are ground up for another production run. Cookies which are getting stale are ground up and used as an ingredient in current production. Goods are often repackaged. Truck loads of canned goods, for example, which are damaged in transport accidents are often reclaimed and sorted by the manufacturer, rather

than being disposed of by an insurance adjustor. Undamaged cans are recased and distributed through normal processes, punctured cans are destroyed because of health hazards, and dinted cans are sold through discount outlets or to staff.

Many interviewees mentioned Usher's as the discount outlet through which they sold dinted cans and other damaged product. In addition there are in the food business a number of brokers who deal with damaged food products. Selling to such outlets gives manufacturers some return for their product. Pig farmers also buy waste food for pig feed; many bakeries dispose of products this way. Many companies give their sales representatives authority to allow their retailing customers to offer special sales promotions on goods which are nearing the end of their shelf life; delicatessen products were mentioned. This approach minimizes the amount of waste caused by spoilage.

Many manufacturers offer damaged food products to their staff at discounted prices. One food producer uses this method almost exclusively and with great success. None of the products in this discount staff outlet are labeled; canned products are coded and the contents of glass jars are obvious. Staff are given code books that tell them what is in the cans and they are not prohibited from buying products for neighbours, friends and relatives. The lack of labels on products discourages resale and protects brand names.

A few companies indicated that they dumped, destroyed or garbaged edible unsaleable product. Examples given included edible products such as stale cookies, discoloured fruit and vegetable juices, and mouldy cheese.

Most companies facing the disposition of waste, surplus or damaged product consider carefully the impact that it will have on the marketplace. A freezer of fruits and vegetables told us that his company reduced the amount of product given to charities because of complaints from caterers who were producing food for these charities' summer camps. A biscuit manufacturer chose to recycle stale cookies rather than having them purchased by food brokers, because of the impact that the availability of a highly discounted product would have on the sales of regular product in retail outlets.

Some corporations in the food industry give food to charity. Most of these gifts are of quality product rather than of waste or surplus food. However, such gifts may not be top quality product. One company, when questioned about giving food to a food bank, pointed out that it liked to deal directly with all charities to whom it gave food. It provided an opportunity for public relations and it allowed the company to "warn" the charity about the nature of the product it was getting (too little/too much salt, etc.).

Some companies carefully consider the nature of their product when making a decision as to whether it would be given to charity and if so to which charity. One company, for example, distinguished between frill and regular products; company policy is that frill products are handed out with care and certainly never sent to charities overseas.

In looking at the practices followed by the food industry in disposing of surplus or waste food, it is obvious that all corporations tend to control these practices very tightly. Any practice that has the potential of allowing a product into the market place carries with it both threats and opportunities - threats that it can distort the normal market place for the company's products or that it can bring a bad name to the company and its products, and opportunities to gain good public relations as a result of donations to charity.

Charities Selected For Food Donations

It was noted above that a number of corporations in the food industry give food to charities. This section deals with the practices they follow.

Most companies indicated that they have the equivalent of "preferred lists" that include the names of those groups to whom they will make food donations. These lists tend to be compiled over an extended period of many years. In some cases, the charities appearing on the lists were selected by the corporation; in other instances, they appeared on the list because they had asked to be placed on it. Corporations appear to consider the general nature of a charity's activities and to look for activities that are non-denominational in nature and that both do good and are seen to be doing good within the community they serve.

Many corporations indicated that they were reluctant to change their lists or to add the names of other charities to them. This resistance to change partly resulted from what people described as a moral commitment or obligation to help the charities continue their work. If new names were added to the lists, the amount of food going to those already on the lists might diminish and many interviewees felt this would not be a desirable thing to occur. When talking about their obligations to charities to whom they gave food many corporations were careful to point out that it was exactly that - a moral obligation - and nothing greater; charities could not, in their view, demand food simply because they had received food donations in the past.

A small number of companies appeared to be more open in their attitudes to giving food to charitable groups. One company indicated that it would respond favourably to almost any request for food. But this company also appeared to discourage certain groups from asking for more by giving out rather small quantities of food. This underlined the fact that the company could not be regarded as a regular source of free food.

Some companies which had developed lists of charities to which they regularly give food appeared to have "favorites" on those lists. It was pointed out that some charitable groups are in a better position to play their part in accepting donated food. The companies know that these "favorite" charities are reliable, that there will be personnel on hand to receive or pick up food at a pre-determined time and that there will be minimal inconvenience to the donating company. Those groups which, through a series of notes on doors and in windows, send drivers who are delivering goods on a treasure hunt to find the key to a warehouse door, tend to get to the top of the list less frequently than their more reliable counterparts.

The authority for giving away waste or surplus food and for making donations of "good" food is found at a number of levels in different corporate organization. One large chain of grocery stores allows its store managers to give food to local charities. Another does not, because it feels that there is no waste or surplus food at retail stores within the chain. In one large organization, each of the divisional heads (presidents of their respective companies) were responsible for food donations. However, the general manager of a division of another food conglomerate indicated that this authority rested with the parent company's senior officers.

It was found, in general, that donations of food to charities formed part of a corporation's donations budget. As these corporations saw it, giving away food was exactly the same as giving away money. Hence, determining the amount of food that would be given away in any period was considered just as if the food were cash. Some interviewees who indicated they likely would not contribute food to a food bank were asked if they would contribute cash to a food bank. They indicated that their company would be pleased to entertain a request for a cash donation to a food bank and that it would be treated in the same way as all other requests the companies get from charitable groups for cash donations.

During the interviews, a number of charities that received food from interviewee companies were mentioned. In no particular order, they are:

Salvation Army
Scott Mission
Good Shepherd Refuge
Women's agencies
Small local charities
Children's camps
Mother Theresa
World Vision
Other overseas charities.

Food Industry Attitudes To Food Banks

Those interviewed were asked for their views on food banks. One opinion expressed a number of times was that "Its a nice concept, but we have no food to give to a food bank." This opinion likely reflects two factors which have already been mentioned, that there is little waste or surplus food within the system at present and that any food to be donated is already allocated or spoken for.

Another comment frequently made related to the legitimacy of any food bank established in Metropolitan Toronto. Many felt this had to be clearly demonstrated before they would make contributions to it. To do so would require the agency to show, for example, that it was a United Appeal agency or that the government supported its operations. Some felt that the Salvation Army, a major recipient of donated food, would have to agree to the establishment of a food bank before a number of corporations would contribute to it.

The need for proper operational controls was also mentioned as a condition of making food contributions. Corporations making this comment indicated they needed to know that the food bank was being run efficiently and effectively. Some were concerned about the end use of their product and indicated that before giving food to a food bank, they would want assurances - almost guarantees - that conditions applied to the usage of their donated food would be honoured.

Many acknowledged the favourable public relations that could result from a corporation's making donations of food to a food bank. They felt it would show that their companies were fulfulling their obligations to the community and were acting as responsible corporate citizens. However, a few felt making donations to a food bank had the potential of offering bad public relations for the donor; no company would be happy to receive complaints because the recipients of food from a food bank did not like the product.

A number of comments suggested that there could be a band wagon effect once a food bank was established. These interviewees suggested that no food could be made available to a food bank at present; however, they asked to be kept in touch, as if indicating that, if a food bank was established and proved successful, they might be disposed to make contributions to it.

During the course of the interview program, it was learned that the Grocery Products Manufacturers of Canada has set up a committee to investigate the establishment of some type of national food bank - perhaps modelled after the Second Harvest in the United States. There may be a number of reasons for this GPMC initiative. Many U.S. subsidiaries operating in Canada are aware, through their U.S. parents, of food bank operations in the United States. Many companies in the food industry are facing an increase in the number of requests for food and a food bank is seen as a way of rationalizing these requests. Also, articles in the press in Metropolitan Toronto over the past six to eight months have focussed their attention on the desirability of establishing a food bank. It would appear that, because of many other pressing problems, this committee may not present its recommendations in the immediate future.

Marketing Boards

A potential source of supply of surplus foods would be agricultural surpluses. However, accessing agricultural surpluses will undoubtedly prove difficult.

To explore this area, interviews were held with the head of the Commodity Marketing Section of the Federal Department of Argiculture, the director of the Federal Agricultural Stabilization Board and the director and an associate in the Ontario Ministry of Agriculture, Economics Branch. The remainder of this section is a resume of discussions with them.

When government aid is sought to deal with agricultural surpluses, it is normally obtained through the Federal Agricultural Stabilization Board. This body may buy the excess crop at then current prices and arrange for its processing and storage until disposal has been arranged. Or it may contract with processors to ensure that the excess crop is put into non-perishable form and to subsidize their processing and storage of the product until disposal at adequate prices can be arranged.

A principal policy objective of the Agricultural Stabilization Board appears to be not to permit surpluses so to depress prices as to de-stabilize Canadian markets. Most commonly, surpluses are disposed of through the Canadian International Development Agency's Third World agricultural aid programs. Occasionally, a crop will be canned and the stored product will be fed slowly back into the market so that little price effect results. Such a practice is expected to repay to the Federal Government the cost of its stabilization action.

A wide variety of products are handled by the Board in this fashion. One product which is a glut on world markets is nevertheless stored under the Board's auspices - powdered milk. It is not known what is to be done with this surplus. Research programs seek to find ways of transforming the milk into useable products such as plastics.

It might be expected that in Ontario the marketing boards would perform the same function, but this is the case with only a very limited number of products. In their raw form, white beans, winter wheat and soya beans are handled by marketing boards. With respect to all other commodities, marketing boards act either as promotional agents on behalf of the growers or as mediators between growers and processors to set quotas and establish contracts.

Some of the Ontario marketing boards deal with tobacco, and they can be ignored for purposes of this study. Apples, asparagus, berries, eggs, grapes, potatoes, greenhouse vegetables, rutabagas, tender fruit - all are dealt with by marketing boards established to promote sales of farm products. Marketing boards also negotiate prices between growers and processors for apples, chicken, cream, eggs, potatoes, grapes, potatoes, turkeys and vegetables. Thus, to lay hands on agricultural surpluses requires making contact with the farmers or the processors. Marketing boards cannot access them, except in the case of the three raw products mentioned.

In summary, agricultural surpluses have to be sought out through contact with farmers and processors. For policy reasons, the Federal Agricultural Stabilization Board is unable to release surpluses into the Canadian marketing system at anything less than normal prices.

Summary

Four principal conclusions arise from the interview program carried out in the food industry in Metropolitan Toronto. They are as follows:

1. There is a proportionately diminishing, unquantifiable and unpredictable supply of waste or surplus food available in Metropolitan Toronto.

   While the amount of food production in Canada goes up to meet a growing population, the amount of waste or surplus food produced by the food industry is diminishing proportionately. The amount of such waste or surplus food could not be determined.

P.F. Oliphant + R.C. White

2. The food industry is sympathetic to donating waste, surplus and good food to a legitimate charity.

   Most companies in the food industry recognize the public relations value of giving food to a food bank. This benefit accrues from giving both waste or surplus food and good food. However, many want to be assured that they are giving to a legitimate charity, one that is acknowledged by most of the community. Corporations are reluctant to change their giving patterns merely "to rob Peter to pay Paul."

3. The food industry is considering starting a Second Harvest operation.

   The food industry is aware of food banks and what they do and is now considering whether it should set up an operation comparable to that in the United States.

4. For policy reasons, agricultural surpluses are inaccessible to food banks.

   Policies for dealing with agricultural surpluses have been established over a long number of years and current policy precludes their free distribution in the Canadian market place.

P.E. Oliphant + R.C. White

CHAPTER FOUR - EXISTING FOOD BANKS

There are many food banks in the United States which have been operating for many years; in Canada, their establishment is more recent. This chapter outlines some aspects of eight food banks - five in Canada and three in the U.S.

It is important to note that the term "food bank" has different meanings for different people. The group that commissioned this study, the Daily Bread Food Bank, see a food bank as an organization which solicits, collects and stores food and subsequently makes it available to agencies which distribute it to their clients. The only two groups such a food bank deals with are suppliers and agencies. In Vancouver and Seattle, their food banks are seen as organizations that deal also with clients. They are not, therefore, food banks according to the terminology used by the Daily Bread Food Bank. Throughout this chapter, the term "food bank" is used as defined by the Daily Bread Food Bank.

Information on other food banks has been obtained by visiting some, by talking with others on the telephone, by debriefing members of the Daily Bread Food Bank team who visited Detroit, and by reviewing newspaper articles.

There are substantial differences betwen food banks in Canada and those in the United States. These reflect both the historical and the legislative frameworks within which each operates. In Canada, food banks are a recent phenomenon. The oldest of them began less than two years ago. In the United States, food banks have been in operation for more than fifteen years.

In Canada, public opinion appears to hold that government is generally responsible for the ordinary welfare of the poor. Ordinarily, voluntary agencies collaborate with government in offering specialized services to a defined client group. In a time of unusual hardship, voluntary agencies quickly spring up to respond to client needs which the slower-moving bureaucratic organizations are not equipped to handle. Even then, government is expected to support their work as, last winter for instance, the Ontario Government did with grants totalling $100,000 to a number of church organizations which were helping the needy with a variety of food programs. Elsewhere in Canada, direct service food banks have come into being for similar reasons and with similar support from a variety of governments. Whether they will fade away as the economy improves remains to be seen.

In the United States, public opinion is not as supportive of a general welfare system. Food banks have therefore become an established part of the welfare structure; voluntary organizations supplement a federal food stamp system which is perceived as grossly inadequate. To help them, the federal government has enacted certain tax laws and has made available certain food surpluses which support their work.

Canadian Food Banks

The Vancouver operation, The Food Bank, appears to be the largest Canadian operation. It began in November of 1982. The Bank received no government funding. As many as 1,400 people a week have received bags of food from The Food Bank during the past winter, each of which contains groceries worth approximately $18.

The Vancouver agency distributes food directly to the poor through three, shortly to be five, depots located throughout the greater Vancouver area. Distribution occurs at the same time each week, so that recipients cannot visit more than one depot on the same day. The Bank maintains a register of those who apply for food; it indicates only the source of the recipients' income, not its amount. Recent statistics indicated early in June of 1983 that approximately 75 per cent of the recipients were on welfare, and that for many of them the reason was that their unemployment insurance had run out.

It was estimated that approximately 1,400 bags a week are distributed to such individuals. The plant in which the bags are prepared is a small warehouse with adequate assembly line and storage capacity for a volume of 3,200 bags per week. Approximately five staff members and a number of volunteers provide the labour to administer and handle foodstuffs.

A considerable amount of the food distributed by The Food Bank in Vancouver comes from collections in supermarkets around the city. Supermarkets advertise their involvement in the program with large posters on the windows, they provide boxes on their premises where shoppers may deposit donations and they facilitate pickups by the food bank of these donations for bagging and distribution.

Information on the Edmonton, Calgary and Regina food banks could be obtained only by telephone and by examination of available press clippings. The Regina food bank was in process of organization during the spring of 1983. It will operate like The Food Bank in Vancouver. A number of food processors and farm organizations have been assisting and other corporations have helped with physical and product moving equipment. The Calgary food bank is reported in the Alberta Report on May 16, 1983 as having opened in December of 1982 to supply food through agencies to the needy. It received a federal grant and some contributions from the Kinsman Club. However, it appears to be having difficulty finding goods to distribute and "the bank is pinning its hopes on individuals and church donations".

From the same newspaper

> "In contrast, a similar food bank in Edmonton, the Gleaners' Association, which relies heavily on retailers, wholesalers and farmers, reports a steady increase in donations. Manager Philip Byrne says 97,000 lbs. of food arrived in the first three months of this year, and he expects the bank to take in three times that amount over the summer 'when the season really gets going'... Currently the Gleaners' distributes food to 63 agencies in the inner city...
>
> "In Edmonton Mr. Byrne says that local farmers provide a substantial proportion of food to the Gleaners'."

In Kitchener a food banking agency is operated by the Mennonite Church and as in Vancouver distributes food directly to the poor. It has a sizeable operation relative to the size of the city, but exact figures are not available on its operations.

American Food Banks

In the United States there are over 130 food banks. There is also an umbrella organization called Second Harvest which serves many of the local food banks.

The Detroit Gleaners Community Food Bank, Inc. is one of the large American agencies. It collects surpluses and donations from food suppliers and distributes them to agencies at a charge of 13¢ per pound. It has eleven hired staff and no

volunteers. Its annual budget is in the order of $500,000. It uses some of these funds to bring food from as far away as California. The Gleaners operate as a "grocery store". That is, they attempt to limit receipts of products which they cannot dispose of and by purchasing extra food to augment supplies of those that are in demand. The food bank is supported largely by the agencies who are its members and through whom the food is distributed. It is not clear how many people are helped by the food bank, but it is organized to reach a volume of 400,000 lbs. of food a month.

In Seattle there are a large number of food banks operating within the Metropolitan area of Kings County. In addition there is a Coalition with operates as a "gad fly" toward both food banks and agencies. Two of the food banks and the Coalition were visited by the consultants.

A number of comments arose during these discussions which are of relevance to consideration of a Metropolitan Toronto food bank.

The food banks indicated the importance of anticipating a two to three year period for development of the food bank into a fully operating organization. It takes this length of time to equip and to form the linkages with agencies and suppliers to develop a satisfactory food throughput. Unlike the food bank in Detroit, the Seattle food banks view their responsibility not as that of a grocery store, but as an expeditor of food from suppliers to agencies. One food bank plans for food to remain no longer than three days between the time of its delivery to the food bank and its further distribution. Food is allocated to agencies on the basis of the number of clients the agencies served in the prior month. They experience little variation in demand for food over the year, possibly because the Seattle climate is more equable than in the other parts of the country.

Food sources include donations from corporations and other food handlers and surpluses from government stockpiles. Supplies from the government are limited to a small number of commodities and, while clients can collect other foods twice each month, distribution of government supplies to clients is allowed only once a month. Both food banks interviewed in Seattle rely heavily on donors for the physical plants from which they operate. One receives its office and warehouse

space from the State government without charge. Donors also provide shelving, freezers, fork lifts and transportation equipment without charge. Some of these assets are given to the food bank and others are on loan. Donations of this type receive the same favourable tax treatment as donations of food.

The Coalition and food banks both mentioned concerns about "hidden agendas" among the agencies. They suggested that much of the food distribution is carried on to satisfy the needs of the distributor rather than of those to whom the food is distributed. Consistent with this is many food bank's practice of linking food distribution with voter registration.

In New York, food banks are said not to have been very successful. A food bank set up to handle waste from restaurants found food quality and safety problems almost an insuperable problem. In the New York Times, April 1, 1983, the City Council president, Carol Bellamy, announced that she was sponsoring creation of a New York City food bank along the lines of the Detroit operation. In her words "within a year or two, we expect to help feed up to 200,000 people daily." Justification for the program, in her words, was "...the disastrous Federal cuts in important nutrition programs".

Offsetting its apparent retreat from direct subsidy programs, the American federal government instituted five years ago an amendment to the Internal Revenue Code which provides a benefit to donors of food and equipment to American food banks. An explanatory note on this incentive appears as Appendix J to this report. As a result of this tax treatment, a number of corporations apparently include donations to the food banks in their regular production runs. "Surplus" foods arriving at the food banks may therefore represent normal production, the marginal cost of which is quite low in relation to the donor's income tax benefit.

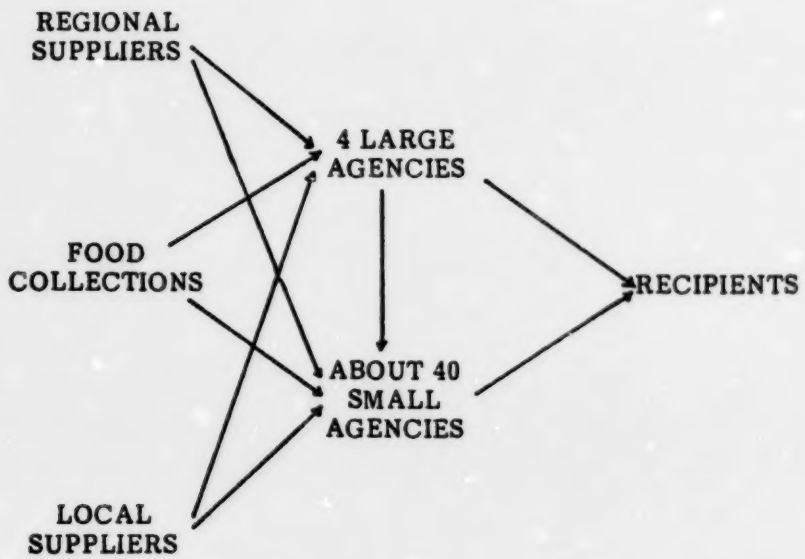
Clearly, the variety of arrangements in Canada and the U.S. suggests possibilities for a food bank in Metropolitan Toronto. However, differences in the political and legislative frameworks of operations in Canada and the U.S. make the American models of only limited value in developing suitable Canadian models. The Vancouver model in Canada, since it is a direct distribution agency, has also limited relevance to the Daily Bread Food Bank, since the Terms of Reference for this study clearly excluded operations involving distribution other than through existing direct service organizations.

CHAPTER FIVE - MODELS

The preceeding chapters suggest both the scope and the limitations of potential food bank operations. This chapter presents a model of the present system, summarizes the key findings on the agency and supply side, and then considers what model concepts might be relevant to establishing a food bank in Toronto. Two models are presented for consideration, reflecting substantially different objectives.

Present System

The present food distribution system with which the Daily Bread Food Bank is concerned is represented in the following diagram:



For purposes of analysis, food may be said to move into the system from three supply sources: regional suppliers, food collections and local suppliers. Regional suppliers, national or multi-national corporations, may have surpluses inside or outside Metropolitan Toronto. They have the cabability of moving these surpluses to designated agencies for disposition. As well, the regional suppliers usually have a formal donations policy, which determines where money or products will be directed.

Food collections from schools and churches provide another source of food to agencies. There may be Metro-wide collections in accordance with a school board mandate or regional church policy, or collections may take place within a local church for a local agency.

Local suppliers are those bakeries, chain store outlets acting autonomously under general corporate policy, and possibly "Moms and Pops" who have built up a helping relationship with a small agency.

Food from these three sources finds its way to both the large and the small agencies. In addition, food from these sources may find its way through the large agencies to the small agencies. And there is even some transfer of food among the large agencies themselves.

The output of this system goes to needy recipients either in the form of prepared meals or of hampers. The recipients may be hostel dwellers, residents in homes for temporarily disadvantaged or wounded persons, or transients seeking a "soup kitchen" meal.

System Functions

The three main functions of this system are soliciting, logistics and distribution. Each of them has certain characteristics which must be considered in designing an optimal food bank system.

The function of soliciting is characterized by rigid supply channels. Each agency which receives donations of food feels that it has supply connections which it must protect. Many suppliers have "favoured" agencies toward whom they would not want to appear disloyal.

In the logistics function, one finds adequate warehousing and transportation facilities within the whole system, but the system does not operate as a whole. There appear to be privileged inter-agency exchange relationships. Perhaps these reflect ideological congruity or perhaps only custom born out of a long collaboration.

The way in which the soliciting and logistics functions work and interact results in a very fragmented balancing of demand and supply. Some agencies do not know where to go for supplies. Others may possess surpluses requiring disposal through a telephone campaign to other agencies. Some suppliers with perhaps greater willingness to distribute food than is apparent are dismayed at the number of agencies to be considered. Some agencies, for their part, may look at the variety of suppliers in perplexity as to where to begin soliciting.

In the distribution function the system is characterized by many unique services. Each established agency has a specific mission and a clearly identified clientele. Almost all of the agencies receive government grants and individual or corporate donations. Whether this range of established agencies meets every need of the poor in Metro is a moot point. There are a number of emergency food supply services, operating in a somewhat ad hoc way who do not form part of this established system. Whether they are necessary to a properly constituted welfare system is also a moot point. The Daily Bread Food Bank's views on these questions may play an important part in its decision on the model proposals in this report.

Constraints

On the agency side, the findings of this study suggest three major findings, representing constraints to which a food bank model should conform.

1. The large agencies are satisfied with their present supply arrangements. Indeed, some are seriously concerned that a food bank might disrupt those arrangements.

2. The large and the small agencies have a substantial storage capacity, they have functioning transportation arrangements, and some large agencies are experienced in using commercial storage. A food bank model need not address logistics from the point of view of facilities requirements.

3. The small established agencies, with a few exceptions, are seeking access to more adequate food supplies at lower time and money costs. Although a small number of these agencies indicated that they wished these additional supplies to meet unsatisified client demand, the majority seek relief in order to divert their resources to other programs.

On the supply side, there are four other key findings:

1. There is a diminishing amount of surplus and waste food available from suppliers. All corporations seek ways of saving money and new methods have been introduced for better relating supply and demand in order to minimize losses.

2. Suppliers are sympathetic to donating food to a "legitimate" charity. Legitimacy seems to mean some form of government involvement or approval, and the approval of the large agencies, particularly the Salvation Army. Food donations would not primarily be diversions of surplus or waste, but regular stock donated in conformity with the corporations' overall donations policy.

3. The food processors are already considering a Second Harvest approach. A committee of the Grocery Products Manufacturers of Canada has been set up to see whether such a "United Way" would minimize approaches to their members and coordinate the distribution of food donations and surpluses.

4. For the time being, agricultural surpluses are largely inaccessible for policy reasons. So long as federal government policy is based on the principle that Canadian markets should not be de-stabilized by agricultural surpluses, these surpluses will either be sent overseas or fed back to the market at normal market prices. Disposition of agricultural surpluses is not a provincial responsibility except in the case of three raw products: white beans, winter wheat and soya beans.

Optimization

The preceeding sections suggest certain determinants for models to optimize the present system.

On the one hand, "hard" services in the present system appear to be adequate. That is, warehousing and distribution facilities within the system appear to be adequate to the system's demands. As well, facilities for distribution appear to be adequate within the present system. If the present system is felt to be inadequate to dealing with the needs of the poor, this would not be true, but that is not a question on which this study takes a position.

On the other hand, "soft" services do not appear adequate. There is an opportunity for a higher level approach to the major suppliers and a more comprehensive approach to the smaller local suppliers. Present solicitation methods may be in contact only with the "tip of the iceberg".

Second, some members of the Daily Bread Food Bank feel that the present system inadequately coordinates advocacy for the food needs of the poor. To the extent that one feels dissatisfied with the present welfare system, one may share that view.

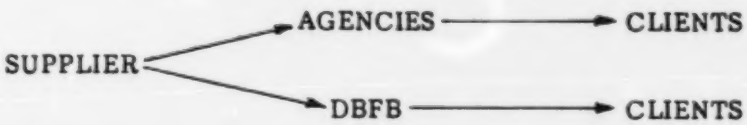
Finally, in the soft service of balancing demand and supply, the fragmented nature of the function could lead to considerable waste within the system. Co-ordinated warehousing and transportation would reduce facilities requirements. And a sufficiently senior approach to suppliers might persuade them to assume a substantial warehouse and transportation cost on behalf of the agencies, since this would fit easily within their present operating practices.

These observations suggest that there are a number of undesirable models for optimizing the present system. These are diagramed below.

SUPPLEMENTARY STORAGE PROVIDER

INTERMEDIATE STORAGE PROVIDER

DIRECT DISTRIBUTION AGENCY



The first undesirable model would be one which provides supplementary storage. If it is true that present warehouse facilities are adequate and that suppliers could be persuaded to provide some warehouseing services at their own cost, then any role for the Daily Bread Food Bank as a supplementary storage agency is one which adds cost to the system without a corresponding benefit. It might be that in the future such a function would be necessary, but within the context of optimizing the present system, it does not appear to be so.

A second undesirable model is a more extreme version of the first. It would see the Daily Bread Food Bank as an intermediate storage provider, standing between the supplier and the agencies as first recipient of food surpluses and donations and co-ordinator of distribution of these commodities to the various agencies. There seems little doubt that a number of agencies would have serious objections to this disruption of their normal supplier relationships. In addition, it again increases the cost of warehousing without a corresponding benefit.

A third undesirable model, in terms of optimizing the present system, is one which sees the Daily Bread Food Bank as an independent direct distribution agency. This model was ruled out in the terms of reference for this study; they speak of

developing a model only for existing agencies. Parallel operation of a direct distribution system by the Daily Bread Food Bank would therefore be inconsistent with this instruction.

Model Options

How then might a Daily Bread Food Bank improve the present system? The terms of reference call for two models of a food bank which would do this. The two models which follow both avoid the problems mentioned above, and seek to optimize the food distribution system. They differ from each other in their definitions of system boundaries.

The first model seeks to optimize the total system. It would include all of the existing agencies within its boundaries, even those such as the Salvation Army which have expressed reservations about participating in a Daily Bread Food Bank.

The second model limits itself to consideration of a system which includes only small agencies. The small agencies would be those established agencies which wish to participate and those ad hoc or emergency services which wish to avail themselves of the Daily Bread Food Bank's services.

Both models are designed to optimize the workings of the distribution systems defined within each of these two boundary concepts. The first model implies no competition among distributing agencies. The second permits competition between the Daily Bread Food Bank and those agencies which have chosen not to participate in it. This competition might involve approaches to suppliers, or it might arise from differing definitions of who the needy are and how they are best helped. The first model might require delicate negotiations to achieve the objective of involving all agencies; the second might be implemented by some or all of the agencies already involved in the many meetings preliminary to and concurrent with the conduct of this study.

These two models - the total system model and the participating agency model - are the subject of the following sections of this chapter.

Total System Model

What would be the potential for an optimized total system? A potential result of more effective soliciting would be an increased supply of food donations and agricultural surpluses for all agencies. In the logistical area, one would look for co-ordinated balancing of supply and demand, inclusive of all suppliers and agencies. In the distribution function, a greater supply of more varied foods might be expected by all agencies.

The sub-headings used below correspond to these used in the outline of study requirements in the Terms of Reference.

Objective and Policies

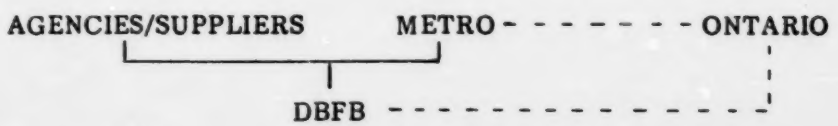
To bring this about, there are certain requirements. In the soliciting function, there should be a more comprehensive program of public relations and possibly of advocacy activities. Since food surpluses and wastes are diminishing, there should be, to the extent practicable, incentives for donations of quality food. As well, with regard to agricultural stabilization activities, there should be a controlled contact - appropriate in camera discussions between Ontario and Federal officials and politicians. Such contact might free a small proportion of surplus agricultural products for use in the Metro area, a result which could probably not be achieved by public advocacy.

In logistics, what appears needed is a neutral supply/demand communications centre. It would have to be neutral, because otherwise suspicions would arise that it was dominated by one ideology, sect, agency or, conceivably, supplier. To make supply channels more flexible, it must be apparent to both agencies and suppliers that no special interest dominates either solicitation or distribution of food obtained through food bank soliciting.

As to distribution, a more optimal system will reinforce agencies' approaches to client needs. It will not by-pass them nor compete with them, but will help them accomplish their own missions in a more effective manner.

Organization

To meet these needs, the following model is proposed:



In this model the Daily Bread Food Bank is a Metro organization connected with the agencies and with supplier organization representatives. The model is a typically Canadian solution. It proposes a melding of public and private resources in an evolutionary approach. It might be, like the City of Toronto Non-Profit Housing Corporation, an agency with only one shareholder, Metropolitan Toronto, and a Board appointed by the shareholder that is representative of agency and supplier interests. The authority of the Board can be quite substantial in such an organization providing the shareholder has confidence in its integrity and sense of responsibility.

With a small staff comprising a part-time general manager and a full-time supply/demand co-ordinator, the Daily Bread Food Bank could act as advocate for the needs of the system. In collaboration with the agencies, it would solicit donations from suppliers. It would act as a communications centre to coordinate the logistics of the system. This would ensure that agency needs were met as efficiently and equitably as possible.

With Metro as sponsor and staffing agency, the Daily Bread Food Bank would be perceived as neutral with respect both to agencies and suppliers. With the large agencies on its Board, it could solicit only in such a fashion as not to disrupt their normal lines of supply. In its advocacy role, it would display a tone and content in its pronouncements that reflected a compromise of the views of agencies, suppliers and Metro.

It is conceivable that after the food bank has operated successfully within Metro, the Metro government would spin it off as an independent organization funded to some degree by Metro or the Province. One of the prime reasons for the involvement of Metro in the establishment of this model is the need to demonstrate

the neutrality of the Food Bank. Once this neutrality is clearly established and provided there are guarantees in its governance that it will continue, it may be a logical step to allow the Food Bank to divorce itself from its direct ties with government.

Because Ontario funds 80 per cent of Metro community services, it is inevitably involved in such a model of the Daily Bread Food Bank. Its interest could bring two substantial benefits.

First, the Government of Ontario could be designated as the notional recipient of food donated to the food bank and, thus, the donation could become a gift to the Crown. The Ontario government, unlike Metropolitan Toronto, has the right to accept and to issue receipts for donations or gifts to the Crown. The Income Tax Act places no limit on the amount of tax-deductible donations an individual or corporation can make to the Crown, although it does for donations to charitable organizations.

The valuation of this donated food could be at a level between production cost and retail selling price. This would offer an incentive to suppliers, providing the Income Tax Act did not require them to add the implicit profit element back into their income. As indicated in Chapter 4, the American tax act provides for such a precedure within prescribed limits. To prevent abuse of this system, Ontario would have to be assured by Metro that the systems operating within the Daily Bread Food Bank included adequate checks on both quantities and values. This provides another reason for having Metro as the sponsoring body in this model.

Second, Ontario's interest would encourage Province/Federal discussions whose purpose would be to discover means of releasing some of the surpluses arising in Canada for the Daily Bread Food Bank. Such a pattern might benefit other food banks, not only in Ontario, but also throughout Canada.

Development

It is anticipated that development of this model could proceed immediately following review of the proposal by Metro Council and the Province; this may take some time. Also, the staff recruitment policies of Metropolitan Toronto would

have to be observed. If new hiring or reallocation of existing staff could be complete by November 1, solicitation and system optimization could begin.

One potential area for delay is in obtaining the cooperation of all of the agencies and in deciding how this would be reflected in the composition of the Board of the Daily Bread Food Bank. The advantages of the model to all parties, however, warrants optimism that this would not introduce significant delays in development of the model.

Cost and Funding Options

Since the model presupposes that Metropolitan Toronto will staff and house the office of the Daily Bread Food Bank, marginal costs will be limited to the salary costs of new employees and of promotional materials. It is suggested that in its first year of operation the marginal costs of this model would be about $50,000. This reflects the salary costs of one full-time coordinator and a part-time general manager, as well as design and printing of brochures and legal costs to draw up the organizational arrangements. If "hard" services become necessary, this cost could increase substantially.

This model of a Daily Bread Food Bank could be fully supported by Metropolitan Toronto, following present practices where the Province and Metro share in most Community Services programs in a ratio of 80:20. It seems desirable that some donations program should be implemented to demonstrate community support for the food bank. Since existing "hard" services are utilized in a more optimal fashion, this model would not involve additional cost to the agencies.

Co-op Model

The following section presents a model reflecting different objectives from the first. In accordance with instructions from the Steering Committee, it presents a model appropriate to supporting the food delivery services of a number of the smaller agencies. Without intending to imply precise legal definitions, the model has therefore been called a "co-op" model. The following paragraphs describe it in terms of its objective, policies, organization, development, cost and sources of revenue.

Objective

The objective of this model of a food bank would be to solicit food for smaller agencies. A convenient way of thinking of the proposed model is as a co-operative venture of participating agencies. Not all of the smaller agencies can be expected to join such a food bank. Those which do should expect to be members of the Board of the Daily Bread Food Bank; since it is working for them, they have a right to direct and monitor its activities. Agencies who are not members of the venture would not be represented on its Board.

Such an arrangement need not imply the legal arrangements typical of a co-operative. Procedural agreements between the Daily Bread Food Bank and the participating agencies could bring about the substance, if not the form, of a co-operative venture. These agreements would include understandings with respect to board membership, solicitation practices, food allocation practices and public stands on issues of importance to the food bank.

Policies

Thus, solicitation targets would be established by Board decision. During the study, it was suggested that the solicitation efforts of the Daily Bread Food Bank should not compete with those of other agencies and that they should therefore be directed to small supplies and large suppliers that presently dump their edible food wastes. Yet with the best of intentions, it may be difficult to avoid competition, since all of a large agency's sources of supply, small or large, may not be known to Daily Bread Food Bank staff.

Those to whom food is directed would certainly include all of the participating agencies. It might also include such emergency facilities as the Board decides. Because the creation of emergency facilities is hopefully a response to a temporary need, they would not likely be considered eligible for Board membership. Rather, they might be thought of as "customers" of the Daily Bread Food Bank. The Board would have to decide what charges, if any, these emergency agencies would have to pay in order to receive supplies of food from the Daily Bread Food Bank.

In the area of logistics, storage and transportation facilities, policies need to be established. The model anticipates that the Daily Bread Food Bank would first optimize the use of existing storage and transportation resources found in the participating agencies. If these were stretched temporarily, commercial storage and transportation could be used. Only when commercial storage and transportation appeared likely to become a permanent complement to participating agencies' facilities would the Daily Bread Food Bank likely consider acquiring its own storage and transportation assets.

With respect to public stands on food issues, it is to be expected that the Daily Bread Food Bank would reflect participants' views. They might also have prudently to refrain from stands which might imperil sources of supply to the Daily Bread Food Bank.

Finally, a major policy decision for the Board would be to set rules for food allocation among the participating agencies. It is to be hoped that the policy would be devised in such a way as to make all participating agencies richer. This might require very careful wording after thoughtful consensus has been reached on ways of achieving this without "robbing Peter to pay Paul". In the short term, food allocation policies may have to be different than they might be expected to be in the long term. Short term policies may have to recognize the amount of donated food that agencies presently receive; allocations in the longer term may be based on the number of clients served.

Organization

The co-op model might be expected to operate initially with a relatively small staff. A general manager would report to the Board. Two subordinates would be required - a secretary and a co-ordinator.

The general manager would solicit food, money and equipment wherever they might be found, subject only to Board policy. To support solicitation, a public relations program would have to be devised under the general manager's direction. As well, it would be the general manager's obligation to maintain good relations with all of the participating agencies.

The co-ordinator would first have to inventory agencies' "hard" services in order to know where to direct proferred food for storage and how to arrange its transporation. Since it may be expected that volunteers will continue to assist participating agencies with their food transportation needs, and that these needs may grow if the food supply grows through the Daily Bread Food Bank's solicitation efforts, co-ordination of volunteers will become an important part of the co-ordinator's job. Finally, it will be necessary for the co-ordinator to reallocate stored food from those agencies to whom food has been directed for storage to those agencies requiring it.

The secretary would act as an assistant to both of the other members of the Daily Bread Food Bank's staff. Solicitation and public relations will require correspondence. Telephones will have to be answered and perhaps quick decisions given in the absence of the general manager or co-ordinator.

Thus, the three staff members would be expected to work as a team, sharing responsibilities as necessary.

Development

If it were decided to proceed to establish the co-op model, immediate action would be necessary to identify those agencies who are willing to participate and to conclude with them agreements on the matters previously mentioned and on their obligations with respect to funding the Daily Bread Food Bank. Then it will be necessary for the Board to define how new agencies may enter the co-operative venture and how the Daily Bread Food Bank will deal with requests from emergency food services.

These activities may require two months. They would be conducted by those now associated with the establishment of the Daily Bread Food Bank.

At the end of this two month period, providing satisfactory agreements had been reached with all of the participating agencies, it would be time to set up the organization and to hire the co-ordinator.

Thus, providing work began immediately, it might be expected that the Daily Bread Food Bank would be ready to commence operations by October 1, 1983.

Cost

Estimates of the cost of operating in accordance with this model have been prepared in such a manner as to distinguish between the start-up costs - costs incurred during the initial two months - and the first year's annual cost. These estimates are shown below.

	Initial Two Mons.	Annual (Initial)
Personnel		
General Manager	$ 4,200	$ 25,000
Secretary	2,200	13,000
Co-ordinator	-	18,000
	$ 6,400	$ 56,000
Plus 15% Benefits	1,000	8,400
	$ 7,400	$ 64,400
Office Space	NIL	NIL to 15,000
Telephone	500	2,400
Supplies	NIL to 500	2,600
Promotional Materials	15,000	15,000
	$22,900 to $23,400	$ 84,400 to $ 99,400
Total with 15% Contingency	$26,300 to $26,900	$ 97,100 to $114,300

These costs imply that the general manager and secretary would be paid employees during the formative first two months. Filling the co-ordinator's position would not be necessary until the Food Bank was ready for full operation. Salary costs have been set at what seem to be reasonable levels for a small organization. The two month's salary costs of the general manager and secretary represent a pro-rated 1/6th of annual salaries. A minimum level of employee benefits would require, it is suggested, 15 per cent of gross salaries.

It might be expected that office space would be donated during the formative months. Thereafter, free use of space might continue or the cost of office accommodation might rise to as much as $15,000 annually. This estimate implies that office space must accommodate not only the paid staff but also visits from volunteers. The initial costs of telephone service are always higher than ongoing costs, because of installation charges; the estimates reflect this. As with office space, stenographic supplies might be donated during the initial period. If not, they might cost as much as $500 during the first two months. Thereafter, costs would not be quite as high.

The estimates include substantial sums for promotional materials. These reflect the initial need to inform the public that the Daily Bread Food Bank is in operation, and subsequent more modest activities to maintain and support solicitation efforts.

Because of the greater than usual uncertainty surrounding an entirely new venture, a contingency allowance of 15 per cent is suggested for budgetary purposes. On the basis of these calculations, start-up might be expected to cost around $26,500. The first year's operating costs might fall between $97,000 and $115,000.

Funding Options

The participating agencies should be expected to provide most of the necessary funding to maintain the Daily Bread Food Bank. Their financial stake in its operations will help ensure that it continues to meet the needs of the participating agencies. Such funds might be raised either by imposing levies on the members or by charging user fees related to their consumption of food resulting from the efforts of the Daily Bread Food Bank. The following table compares these two possible sources of funds in terms of advantages to be desired from a fund-raising scheme.

	Funding Source	
Advantages	Member Levies	User Fees
Will the source be dependable?	Yes	No
Will the amounts charged be easily quantifiable?	Yes	No
Will the source result in low administrative costs?	Yes	No
Will the source be independent of operating policies?	More	Less
Will the source be member responsive?	More	Less

A principle advantage to be sought from a funding option is dependability that the funds required will be raised. Member levies offer this advantage, but user fees do not, since it is impossible to foresee how much food will be raised through Daily Bread Food Bank solicitation and in what quantities agencies will "purchase" it from the Food Bank. If food solicited by the food bank is less than expected, user-based revenues will be down. If agencies purchase less than anticipated, revenues will also be down.

As a consequence, member levies allow precise quantifiability of returns to be expected from member levies. User fees do not.

Raising funds by member levies involves the lowest administrative cost in fund raising. User fees involve keeping track of the disposition of food quantities and perhaps even of their imputed values.

It is important also in fund-raising to try to achieve the maximum independence of operating policies from fund-raising techniques. Member levies are more likely to do this than user fees. The latter would tend to force the Daily Bread Food Bank to operate as a grocery story, with the disadvantages that entails. A member levy does not bias the distribution system; it forces such policy matters back to the Board for decision.

Another way of saying this is that member levies are more likely to make the Daily Bread Food Bank responsive to its members' wishes than user fees. Then, being assured that routine operations are in accordance with Board policy, user fees may be appropriate as a means of charging emergency services for food.

To reflect the different problems of start-up and on-going operations, it is suggested that the member levies be considered as of two kinds - shares and participating fees. These distinctions need not reflect legal concepts; they are used merely as analogies.

Thus, shares are usually issued to finance the formation of a company. If twenty agencies may be expected to participate in the Daily Bread Food Bank, each agency's share would be about $1,300. If solicitation for funds resulted in donations from outside the Daily Bread Food Bank, the amount of these donations would be allocated proportionately to reduce the amount charged for co-op shares.

In the first year of continuing operation, participation fees for twenty agencies would amount to from $400 to $450 a month. Again, funds received from other sources would allow these fees to be reduced.

Implied in the above cost and revenue analysis is a view as to who are not likely to be funders of the Daily Bread Food Bank. This view is offered very tentatively; obviously, pessimistic opinions on a class of possible funding sources can always be, and hopefully will be, refuted by someone's generosity. Nevertheless, the following comments reflect perceptions arrived at during the course of the study.

Governments are unlikely to fund the co-op model. Governments look for evidence that proposals have received broad support in the community before they are willing to consider long-term support. Since the co-op model leaves the bigger agencies and probably a number of the small agencies out of its decision-making structure, it does not reflect such a consensus. It optimizes on behalf of certain agencies a part of the food distribution system, but it is not inclusive and its power to draw more food into the system is uncertain. Supporting it could cause more political problems for government than benefits.

Another source of funds to which organizations frequently look are the churches and service clubs of the community. It seems likely that the Roman Catholic and United Churches would consider themselves already committed to their own food providing agencies. The Anglican and other churches may have similar allegiances. Service clubs are already all involved with "favoured" charities. Some may have surplus funds for a Daily Bread Food Bank, but under current economic conditions, this does not seem likely.

Foundations are usually project oriented. That is, they prefer to provide seed money, particularly for "bricks and mortar". This suggests that there might be some foundation money available to help start the Daily Bread Food Bank, but experience suggests that there will be little to support its ongoing operations.

Large food suppliers might be asked by the Daily Bread Food Bank for money donations; however, consensus about "legitimacy" may discourage their giving. The small suppliers, who were intended by the Steering Committee to be the principal

target of food solicitation efforts, are unlikely to provide both money and food, and it seems that the Daily Bread Food Bank would prefer them to donate food. Indeed, one might expect the Daily Bread Food Bank to prefer receiving food rather than money from all of the food suppliers, whether large or small.

The last potential source of revenue is the emergency agencies that may be set up to meet the needs of the hungry. These usually have limited resources which they may prefer to spend directly on food, than to give them to an organization designed primarily to serve other agencies.

Model Comparisons

The last section of this report compares the two models that have been presented - the total system model and the co-op model. The following table summarizes the comparison.

	Total System Model	Co-op Model
Objectives	System Optimization	Member Agency Co-operation
Impact on Food Flow	Maximize	Uncertain
Structure		
- Board	Comprehensive	Agencies
- Staff	1½	3
Operating Procedures		
- Soliciting	Consensual	Competitive
- Logistics	System Facilities	Member Facilities
- Distribution	Qualifying Agencies	Member and Qualifying Agencies
First Year Cost	$50,000	$100,000
Primary Funding	Government	Members
Predominant "Climate"	Stability	Energy
Advocacy Potential	Low	Low

The two generic titles for the models reflect their objectives. The first model is one which seeks to optimize the operation of the entire donated and surplus food distribution system in Metropolitan Toronto. The second is a joint venture of smaller agencies who have chosen to participate in a program to optimize food flows within their combined resources.

The total system model maximizes food flow. Centralized soliciting and advocacy by a single recognized organization, would encourage corporate food donations. Modification of agricultural surplus disposal practices would yield further supplies. If tax donation proposals were realized, they would increase the flow of food. The co-op model does not offer as much certainty with regard to increasing the flow of donated food to participating agencies.

In terms of structure, the Board of the system optimization model is to give a comprehensive reflection of the points of view of the large agencies, a variety of small agencies, suppliers and appropriate political bodies - Metropolitan Toronto and the Province of Ontario. The structure promotes a fully collaborative approach between all agencies to solicitation and distribution. It does not step on anyone's toes. The Board of the second model includes all of those agencies who have expressed their willingness to participate. Others may be drawn in as the Board sees fit, but these will necessarily take a secondary position to those who have a stake in its operations. It is completely independent of government and of the large agencies.

Because the "unseen" assets of the total system model will be working for it, it can operate initially with less staff than the agency co-op model. That is, the former has the full weight of Metro Council and staff and of provincial politicians and staff behind it. These forces can play a major role in reinforcing solicitation efforts, for food, money or equipment. The co-op model requires its staff to "hustle"; its entire success rests on their shoulders.

With respect to the models' operating procedures - soliciting, logistics and distribution - differences reflect similar considerations. Since the total system optimization model anticipates that all agencies, both large and small, will play a

part in its decision making, solicitation will reflect a consensual approach. Whether intentionally or by inadvertence, solicitation by the co-op may place it in competition with large agencies and conceivably even with some of the small agencies.

Logistics procedures reflect the boundaries of the system under each model. In one case, it is to be hoped that all agencies will participate in the Daily Bread Food Bank's co-ordinating activities. In the other models, only those members who choose to participate will be involved in logistical optimization. The success of both models could lead to the development of hard services, such as warehousing and transportation, under the control of the food bank. However, this proposal does not start there; it allows this possibility to mature in the light of experience in the co-ordinating role.

Distribution also reflects these boundaries. In the first model all agencies are eligible to be served by the Daily Bread Food Bank. Their concerns, even if they are not actually on the Board, are to be reflected in the operations of the Bank. Its purpose is to reinforce their operations. A similar purpose is in place in the second model, but there it relates only to the participating agencies and those they admit by Board decision as recipients of food. Both models maintain the uniqueness of agency responses to client needs. Neither model is a competing agency nor an engulfing one. Both reinforce existing agency programs; they do not supplant them.

The first year cost of each of the models reflects largely their staff and overhead differences. The total system model with half the staff and facilities provided by Metro requires only about half the money to support it as the stand-alone co-op.

Because the total system model is more likely to be attractive to government than the co-op model, it is more likely to be supported by Metro and the Province. In the case of the co-op, its participating members must ensure its survival by being its primary source of revenue.

The predominant "climate" of the two models derive from the rather beaurocratic nature of the one and the entrepreneurial nature of the other. The one will be characterized by stability, the other by energy.

In both models the potential for advocacy, particularly of a radical kind, is low. Neither organization is likely intentionally to offend potential donors, other charitable organizations, government or its members.

Thus, neither model is intrinsically better or worse than the other. Each reflects different objectives and different attitudes to government participation. And while the two models reflect significant differences, both will share the challenge of meeting the changing and evolving needs of their respective constituencies. The initial mandate of both models is the coordination of soft services. At present adequate hard services are found in the existing agency systems that would underlie both models. But there is no way of forecasting how long this situation will continue. Nor can accurate predictions be made about economic conditions and the impact that they may have on the food needs of the poor. Any food bank that is established will have react promptly as circumstances change.

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APPENDIX A

DAILY BREAD FOOD BANK
AGENCY SURVEY - FOOD SERVICES

Agency	Meal Provider	Hamper Provider
Anduhyaun Indian Centre	X	
Anglican Houses	X	
Arrabon House	X	X
Bethel House	X	X
Caribbean Church Centre		X
Christian Resource Centre	X	X
Council Fire	X	X
Dixon Hall Centre	X	X
Duchess Street Mission	X	
Flemingdon Park Red Cross		X
Good Neighbours Club	X	
Good Shepherd Refuge	X	X
Harp House	X	
Humewood House	X	
Interval House	X	X
Nellie's Hostel	X	X
Open Door Centre	X	
Our Place	X	
Parkdale Baptist Church	X	X
Rendu House	X	
Rosalie House	X	
St. Clare House	X	
St. Luke's Anglican Church		X
St. Paul's Roman Catholic Church		X
Santa Maria House	X	
Scott Mission	X	X
Stop 103		X
Lavell Smith House	X	
Society of St. Vincent de Paul	X	
Emilie Stowe Shelter	X	X
Matt Talbot House	X	
Toronto Community Hostel	X	X
Transition House	X	
Fred Victor Mission	X	X
Winchester House	X	
Women in Transition	X	
Women's Habitat	X	

Agencies providing meals only	19
Agencies providing hampers and meals	13
Agencies providing hampers only	5
Total survey agencies	37

APPENDIX B

DAILY BREAD FOOD BANK
FOOD INDUSTRY INTERVIEWEES

Associated Biscuit of Canada Ltd.
Bick's Pickles
Boots Drug Stores
Cadbury-Schweppes-Powell Inc.
Campbell Soup Company Limited
Canada Malting Co. Ltd.
Canada Packers Inc.
Canadian Canners Ltd.
Canadian Home Products Ltd.
Catelli Foods Ltd.
Christie Brown & Co.
Carnation Inc.
Coca-Cola Ltd.
Coopers & Lybrand
Dare Foods Ltd.
General Bakeries Ltd.
General Foods Inc.
General Mills Canada Inc.
Grocery Products Manufacturers of Canada
H.J. Heinz Company of Canada Ltd.
Hunt-Wesson Foods of Canada Ltd.
InterBake Foods Limited
Interprovincial Cooperatives Ltd.
Kellogg Salada Canada Inc.
Kraft Limited
Lancia Bravo
Libby, McNill & Libby of Canada
Maple Leaf Mills Limited
McCain Foods Limited
McDonald's Restaurants of Canada Ltd.
Nabisco Brands Ltd.
National Sea Products Limited
Nestle Enterprises Limited
Oshawa Foods
Pepsi-Cola Canada Ltd.
Pillsbury Canada Limited
Primo Foods Ltd.
Procter & Gamble Inc.
The Quaker Oaks Company of Canada Limited
Robin Hood Multifoods Inc.
St. Lawrence Starch Ltd.
J.M. Schneider Inc.
Silverwood Dairies
Silverwood Industries Ltd.
E.D. Smith Ltd.
Toplis & Harding Canada Inc.
VS Services Ltd.
Weston/Loblaw Group

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APPENDIX C

DAILY BREAD FOOD BANK
FOOD SERVICE OPERATIONS OF AGENCIES

Agencies Serving Daily Meals	Number of Meals Served Each Day		
	Three	Two	One
Number of agencies	18	3	6
Number of clients per meal			
Range per agency	7-160	16-240	7-600
Median per agency	22	22	40
Total Clients per meal - all agencies	600	275	1,050
Agencies by number of meals served per week			
Under 250	4	1	3
250 to 500	6	1	1
501 to 1,000	6		
1,001 to 2,500	1		1
Over 2,500	1	1	1

Agencies Not Serving Daily Meals	Number of Agencies	Range of Meals per Week
Meals and frequency of service		
Two meals six days per week	1	501 to 1,000
One meal six days per week	1	1,001 to 2,500
One meal once per week	2	Under 250
One meal once per month	1	Under 250
Number of clients per meal	15-300	

Note: A meal is defined as breakfast, lunch, dinner or a snack eaten on the agency's premises.

Agencies Providing Hampers	Total Number of Agencies	Clients Served	
		Reporting Agencies	Number of Hampers
Year-round service (Monday to Friday, 6; Emergency 7)	13	9	1,750/week
Occasional service	4	3	550/year
Frequency not reported	1		
	18		

Note: Occasional service indicates distribution at Christmas, Easter or similar occasions.

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APPENDIX D - 1

DAILY BREAD FOOD BANK STUDY
AGENCY QUESTIONNAIRE
GUIDE FOR TELEPHONE INTERVIEWS WITH AGENCIES

Thank you for offering to work with us on our study of possible models for implementation of a Daily Bread Food Bank. We appreciate your assistance.

The concept of a food bank is that it would collect surplus food and channel it to agencies which could use it. You are not in your interviews to sell this concept, but to find out about agencies' food requiements and their attitudes to the food bank concept.

Questions should therefore not lead or suggest an answer the interviewer might like to hear, but should be neutral and open-end so that the interviewer hears fully what the interviewee wants to say. This interviewee should be the senior official of the agency or his/her designated spokesperson.

The following two sheets can be used to record basic data, but the interviewer should keep paper handy to make notes of all relevant comments and amplifications of the interviewee.

Opening Remarks

Hello, may name is _____.

You may have heard that a group of people is considering setting up a food bank in Metropolitan Toronto. Its objective would be to channel surplus food from suppliers to agencies which could use it in their service of the needy.

This group, calling itself the Daily Bread Food Bank, along with the Provincial and Metro governments, has asked independent consultants to evaluate its proposals. I am on their team and I would appreciate it if you would spend about ten minutes on the phone with me to answer some questions that will help us with this evaluation. We will endeavour to keep your answers confidential within the consulting team. However, with your permission the information will be aggregated with that obtained from other agencies in summarizing the need of agencies for food donations.

APPENDIX D - 2

DAILY BREAD FOOD BANK STUDY
MEMORANDUM OF BASIC AGENCY DATA

Name, address and phone number of the agency

_____

_____

_____

_____

Name and position of the interviewee

_____

_____

Needs of the agency

A. Do you prepare meals for your agency's clients?

Yes _____ No _____

1. Which meals? How many per day?
2. On which days?
3. How do you plan your menus?
4. Would you please estimate what proportion is donated for this purpose and what proportion is purchased by you of each of the following foods:

	Donated		Purchased	
	Amount	%	Amount	%
Dairy products				
Baked goods				
Canned goods				
Perishables (meat fruit and veg.)				
Frozen foods				

5. Do you charge for food?

B. Do you prepare food packages for your agency's clients to take home? Yes _____ No _____.

1. On what days are the packages distributed?

2. How many are distributed each day?

3. What would these packages contain?

4. Would you please estimate what proportion is donated fo this purpose and what proportion is purchased by you of each of the following foods:

	Donated		Purchased	
	Amount	%	Amount	%
Dairy products				
Baked goods				
Canned goods				
Perishables (meat fruit and veg.)				
Frozen foods				

C. Who are your principal food donors?

D. Are your supplies of food delivered or do you pick them up?

Have you your own vehicles for pick-up? What kind?

E. How many weeks of food requirements can you store in your, and I will mention four types of storage,

Freezer?

Cooler?

Other space?

Commercial storage depots?

F. Do you issue receipts for income tax purposes to food donors? Yes _____ No _____

APPENDIX D - 4

DAILY BREAD FOOD BANK STUDY
MEMORANDUM OF AGENCY ATTITUDES

What do you think would be the advantages or disadvantages to your agency of having a food bank operating in Metropolitan Toronto?

Name of interviewer_____ Date_____

DAILY BREAD FOOD BANK

DONATED FOOD IN MEAL PROVIDING AGENCIES

	Number of Agencies by Meals Served Each Week					
	Under 250	250 to 500	501 to 1,000	1,001 to 2,500	Over 2,500	Total
Agencies reporting minimal amounts of or no donated food	9	4	3			16
Total meals each week	1,300	1,500	1,600			4,400
Agencies reporting measurable amounts of donated food	2	4	3	3		12
Total meals each week	200	1,600	2,200	6,300		10,300
Range of % of donated food to total food cost	5-10%	2-80%	2-100%	2-80%		2-100%
Total agencies reporting on donated food	11	8	6	3		28
Total meals each week	1,500	3,100	3,800	6,300		14,700
% of donated food to total food cost	1.5%	27.0%	21.3%	22.9%		24.3%
Agencies for which data on donated food are not available			1		3	4
Total meals each week			600		10,900	11,500
Total tabulated meal providing agencies	11	8	7	3	3	32
Total meals each week	1,500	3,100	4,400	6,300	10,900	26,200

P.E. Oliphant + R.C. White

APPENDIX F

DAILY BREAD FOOD BANK
DONATED FOOD IN HAMPER PROVIDING AGENCIES

	Number of Agencies by Hampers Delivered Each Period	
	Year-round Service (per week)	Occasional Service (per year)
Agencies reporting minimal amounts of or no donated food	2	
Number of hampers each period	50	
Agencies reporting measurable amounts of donated food	5	2
Number of hampers each period	700	500
Range of % of donated food to total food cost	5-60%	10-100%
Total agencies reporting on donated food	7	2
Number of hampers each period	750	500
% of donated food to total food cost	54.7%	32.5%
Agencies for which data on donated food are not available	2	1
Number of hampers each period	1,000	50
Total tabulated hamper providing agencies	9	3
Number of hampers each period	1,750	550

APPENDIX G

DAILY BREAD FOOD BANK
STORAGE FACILITIES OF AGENCIES

Reported Storage Capacity	Type of Storage: Freezer — Number of Agencies	Freezer — Meals per Week	Cooler — Number of Agencies	Cooler — Meals per Week	Open — Number of Agencies	Open — Meals per Week
Agencies serving under 250 meals per week -						
Limited or none	4	200	7	700	2	100
Specified	8	1,200	5	700	9	1,300
Unlimited	-	-	-	-	1	*
Agencies serving from 250 to 500 meals per week						
Limited or none	1	300	7	2,500	-	-
Specified	7	2,600	1	400	6	2,300
Unlimited	-	-	-	-	2	600
Agencies serving from 501 to 1,000 meals per week						
Limited or none	1	1,000	4	3,800	-	-
Specified	7	4,200	4	1,400	6	4,100
Unlimited	-	-	-	-	2	1,100
Agencies serving from 1,001 to 2,500 meals per week						
Limited or none	-	-	4	8,900	1	1,800
Specified	4	8,900	-	-	1	2,600
Unlimited	-	-	-	-	2	4,500
Agencies serving over 2,500 meals per week						
Limited or none	-	-	-	-	-	-
Specified	1	3,400	1	3,400	1	3,400
Unlimited	2	11,500	2	11,500	2	11,500

Notes:

1. The table includes data from 35 agencies providing meals and hampers; two agencies were not able to provide sufficient data for inclusion in this table.

2. All figures have been rounded to indicate that they have been estimated. Hamper contents have been estimated as equivalent to four meals. * indicates an insignificant amount after rounding.

3. "Specified" refers to agency survey returns in which specific weeks of storage were provided. "Unlimited" refers to returns in which storage was described as more than ample for agency needs.

D.F. Olphant + R.C. White

APPENDIX H

DAILY BREAD FOOD BANK
ESTIMATED STORAGE CAPACITY OF AGENCIES

	Number of Weeks of Storage Capacity		
	Freezer	Cooler	Open
Agencies serving -			
Under 250 meals per week	6.4	1.4	4.7
250 to 500 meals per week	4.2	0.2	13.4
501 to 1,000 meals per week	2.5	0.9	7.3
1,001 to 2,500 meals per week	3.6	0.0	13.4
Over 2,500 meals per week	20.3	20.3	20.3
All agencies	11.1	9.3	15.4

Notes re Storage Capacity Calculations

"Meals per week" includes both meals provided by agencies and hampers given out by agencies. Hamper contents have been estimated as equivalent to four meals.

To calculate "weeks of reported storage capacity" the number of meals per week has been divided into the number of meals represented by storage capacity. The latter was derived by multiplying the number of meals served per week by the number of weeks storage reported; unlimited storage has been taken as equivalent to the maximum specified by any agency, that is, as 26 weeks.

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APPENDIX I

DAILY BREAD FOOD BANK
TRANSPORTATION RESOURCES OF AGENCIES

	Own Vehicle		Volunteer		Supplier Delivery	
	Number of Agencies	Meals per Week	Number of Agencies	Meals per Week	Number of Agencies	Meals per Week
Agencies by number of meals served per week -						
Under 250	9	1,000	3	400	-	-
250 to 500	3	900	3	1,100	2	900
501 to 1,000	3	1,700	2	1,600	3	1,900
1,001 to 2,500	3	6,500	1	2,400	-	-
Over 2,500	3	14,900	-	-	-	-
Total	21	25,000	9	5,500	5	2,800

NOTES:

1. The table includes data from 35 agencies providing meals and hampers; two agencies were not able to provide sufficient data for inclusion in this table.

P.F. Oliphant + R.C. White

APPENDIX J

SPECIAL RULE FOR THE DEDUCTION OF CERTAIN CHARITABLE CONTRIBUTIONS OF INVENTORY AND OTHER PROPERTY

Department of Treasury
Internal Revenue Service

Federal Register
Volume 47, Number 21

February 1, 1982

SUMMARY: This document contains final Income Tax Regulations relating to a special rule for the deduction by corporations of certain charitable contributions of inventory and other property as added by the Tax Reform Act of 1976. The regulations provide corporate donors and charitable and other recipient organizations with the guidance needed to comply with the new law.

DATES: The regulations are effective, generally, with respect to qualified contributions made after October 4, 1976.

FOR FURTHER INFORMATION CONTACT: Charles Saverude of the Legislation and Regulations Division, Office of Chief Counsel, Internal Revenue Service, 1111 Constitution Ave., NW., Washington, D.C. 20224 (Attention: CC:LR:T, 202-566-3323).

SUPPLEMENTARY INFORMATION:

Background

On March 20, 1980, the Federal Register published proposed amendments to the Income Tax Regulations (26 CFR Part 1) under section 170(e)(3) of the Code. A public hearing was held on July 15, 1980. After consideration of all comments regarding the proposed amendments, those amendments are adopted as revised by this Treasury decision.

The effectiveness of these regulations will be evaluated on the basis of comments and information received from the public, members of Congress, other Government agencies, and offices within the Treasury Department and Internal Revenue Service.

Explanation of Provisions: Qualified Contributions

Section 2135 of the Tax Reform Act of 1976 added a new paragraph (3) to section 170(e) of the Internal Revenue Code to provide a special rule for the deduction by corporations of qualified contributions of certain property. The final regulations provide rules which set forth the requirements for a qualified contribution. Only certain of the organizations described in section 501(c)(3) of the Code may receive the contribution, and only certain property may be contributed (principally inventory and depreciable property). The property must be used for a purpose related to the grounds for the exemption of the organization to which the contribution is made and must be used for the care of the ill, needy, or infants. In addition, the organization may not charge for the transfer (or use) of the property and must provide the corporate-donor with a written statement representing that the organization intends to comply with these restrictions on use and transfer of the property. Finally, the contributed property must conform to any applicable provisions of the Federal Food, Drug, and Cosmetic Act (as amended), and the regulations thereunder, at the date of contribution and for the immediately preceding 180 days.

Explanation of Provisions: Calculation of Allowable Deduction

The final regulations require reduction of the amount of the allowable deduction for a qualified charitable contribution by an amount equal to one-half of the amount of gain (other than gain subject to certain ordinary income recapture provisions) which would not have been long-term capital gain if the property had been sold by the taxpayer at fair market value at the date of contribution. A second reduction is made if the amount of the allowable deduction which remains after the first reduction is more than twice the basis of the contributed property.

The final regulations also provide rules for determining the basis of contributed property which is inventory. The basis of such contributed property must be determined under the donor's method of accounting for inventory for purposes of United States income tax. The donor must decrease cost of goods sold for the year of contribution by the amount of this basis.

In addition the regulations do not allow a deduction for amounts which would have been subject to certain ordinary income recapture provisions if the property had been sold.

Comments and Changes In the Regulations

The proposed regulations provided, in § 1.170A-4A(b)(2), that a use inconsistent with the requirements of section 170(e)(3) or the regulations under that section would result in a reduction of the donor's charitable contribution deduction. The final regulations modify this rule to provide that the donor's deduction is not reduced if the donor establishes that, at the time of contribution, the donor reasonably anticipated that the donated property would be used in a manner consistent with the requirements. This modification was made in response to comments and to make the regulations under section 170(e)(3) conform more closely to the requirements of other regulations under section 170.

The proposed regulations provided, in § 1.170A-4A(b)(2)(ii)(E), that the term "infant" meant a child under six years of age. The final regulations provide that the term "infant" means a minor child, as determined by the laws of the jurisdiction in which the child resides. Although it was believed that the term "infant" described a very young (younger than school-age) child, several comments pointed out that the term "infant" can also reasonably refer to a "minor". The change was made, therefore, as responsive to comments and as consistent with the intent of section 170(e)(3).

The proposed regulations provided, in § 1.170A-4A(b)(3), that an organization may not receive property or money in exchange for the transfer of the contributed property. Numerous comments presented the common situation where an organization (such as a food bank) charges a nominal fee to another organization in connection with the transfer of contributed property to that organization. The fee is not in exchange for the property, and is not based on the value of the property but is charged to cover administrative, warehousing, and other similar costs. The language of section 170(e)(3) would appear to permit the collection of such a fee. Thus, the final regulations provide, subject to certain requirements, that a contribution may qualify under this section if a fee is charged to cover administrative, warehousing, or other similar costs. The fee may only be charged by one organization to another organization. No fee, for administration costs or otherwise, may be charged in connection with a transfer of contributed property directly from an organization to ill or needy individuals or infants.

The proposed regulations provided, in § 1.170A-4A(b)(4), that adequate books and records must be kept to show the identity of the donor and transferring organization, the use of the property, and the nature of any disposition of the property. Several comments stated that this requirement necessitated burdensome recordkeeping. Since these recordkeeping requirements should not be unnecessarily burdensome, the rule in the final regulations has been modified to reduce required recordkeeping. The final rules make it clear that the books and records need not reflect a tracing of the receipt and disposition of specific items of donated property. It is sufficient if the books and records disclose compliance with the requirements of section 170(e)(3) by reference to aggregate quantities of donated property. The books and records are adequate if they reflect the total amount of property received and distributed (or used), and outline the procedure used for determining that the

...e recipient of the property is an ...needy individual, or infant. However, the books and records need not reflect the names of the ultimate individual recipients or the property distributed to (or used by) each one.

Drafting Information

The principal author of this regulation is Eileen Murphy of the Legislation and Regulations Division of the Office of Chief Counsel, Internal Revenue Service. However, personnel from other offices of the Internal Revenue Service and Treasury Department participated in developing the regulation, both on matters of substance and style.

Amendments to the Regulations

The amendments to 26 CFR Part 1 are as follows:

PART 1—INCOME TAX; TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953

Paragraph 1. Section 1.170A–1 is amended by revising the seventh sentence of paragraph (a)(1) and by revising paragraph (c)(1). These revised provisions read as follows:

§ 1.170A–1 Charitable, etc., contributions a...ts; allowance of deduction.

(a) *In general*—(1) *Allowance of deduction.* * * * For special rules relating to computation of the amount of the deduction with respect to a charitable contribution of certain ordinary income or capital gain property see section 170(e) and §§ 1.170A–4 and 1.170A–4A.* * *

* * * * *

(c) *Value of a contribution in property.*

(1) If a charitable contribution is made in property other than money, the amount of the contribution is the fair market value of the property at the time of the contribution reduced as provided in section 170(e)(1) and paragraph (a) of § 1.170A–4, or section 170(e)(3) and paragraph (c) of § 1.170A–4A.

§ 1.170A–4 [Amended]

Par. 2. Section 1.170A–4 is amended by deleting from paragraph (b)(4) of the phrase "or 1252(a)" and inserting in lieu thereof "1252(a), or 1254(a)".

Par. 3. There is added immediately after § 1.170A–4 the following new section:

§ 1.170A–4A Special rule for the deduction of certain charitable contributions of i...tory and other property.

(a) *Introduction.* Section 170(e)(3) provides a special rule for the deduction of certain qualified contributions of inventory and certain other property. To be treated as a "qualified contribution", a contribution must meet the restrictions and requirements of section 170(e)(3) (A) and paragraph (b) of this section. Paragraph (b)(1) of this section describes the corporations whose contributions may be subject to this section, the exempt organizations to which these contributions may be made, and the kinds of property which may be contributed. Under paragraph (b)(2) of this section, the use of the property must be related to the purpose or function constituting the ground for the exemption of the organization to which the contribution is made. Also, the property must be used for the care of the ill, needy, or infants. Under paragraph (b)(3) of this section, the recipient organization may not, except as there provided, require or receive in exchange money, property, or services for the transfer or use of property contributed under section 170(e)(3). Under paragraph (b)(4) of this section, the recipient organization must provide the contributing taxpayer with a written statement representing that the organization intends to comply with the restrictions set forth in paragraph (b) (2) and (3) of this section on the use and transfer of the property. Under paragraph (b)(5) of this section, the contributed property must conform to any applicable provisions of the Federal Food, Drug, and Cosmetic Act (as amended), and the regulations thereunder, at the date of contribution and for the immediately preceding 180 days. Paragraph (c) of this section provides the rules for determining the amount of reduction of the charitable contribution under section 170(e)(3). In general, the amount of the reduction is equal to one-half of the amount of gain (other than gain described in paragraph (d) of this section) which would not have been long-term capital gain if the property had been sold by the donor-taxpayer at fair market value at the date of contribution. If, after this reduction, the amount of the deduction would be more than twice the basis of the contributed property, the amount of the deduction is accordingly further reduced under paragraph (c)(1) of this section. The basis of contributed property which is inventory is determined under paragraph (c)(2) of this section, and the donor's cost of goods sold for the year of contribution must be adjusted under paragraph (c)(3) of this section. Under paragraph (d) of this section, a deduction is not allowed for any amount which, if the property had been sold by the donor-taxpayer, would have been gain to which the recapture provisions of section 617, 1245, 1250, 1251, or 1252 would have applied. For purposes of section 170(e)(3) the rules of § 1.170A–4 apply where not inconsistent with the rules of this section.

(b) *Qualified contributions*—(1) *In general.* A contribution of property qualifies under section 170(e)(3) of this section only if it is a charitable contribution—

(i) By a corporation, other than a corporation which is an electing small business corporation within the meaning of section 1371(b);

(ii) To an organization described in section 501(c)(3) and exempt under section 501(a), other than a private foundation, as defined in section 509(a), which is not an operating foundation, as defined in section 4942(j)(e);

(iii) Of property described in section 1221 (1) or (2);

(iv) Which contribution meets the restrictions and requirements of paragraph (b) (2) through (5) of this section.

(2) *Restrictions on use of contributed property.* In order for the contribution to qualify under this section, the contributed property is subject to the following restrictions in use. If the transferred property is used or transferred by the donee organization (or by any subsequent transferee that furnished to the donee organization the written statement described in paragraph (b)(4)(ii) of this section) in a manner inconsistent with the requirements of subdivision (i) or (ii) of this paragraph (b)(2) or the requirements of paragraph (b)(3) of this section, the donor's deduction is reduced to the amount allowable under section 170 of the regulations thereunder, determined without regard to section 170(e)(3) of this section. If, however, the donor establishes that, at the time of the contribution, the donor reasonably anticipated that the property would be used in a manner consistent with those requirements, then the donor's deduction is not reduced.

(i) *Requirement of use for exempt purpose.* The use of the property must be related to the purpose or function constituting the ground for exemption under section 501(c)(3) of the organization to which the contribution is made. The property may not be used in connection with any activity which gives rise to unrelated trade or business income, as defined in sections 512 and 513 and the regulations thereunder.

(ii) *Requirement of use for care of the ill, needy, or infants*—(A) *In general.* The property must be used for the care of the ill, needy, or infants, as defined in this subdivision (ii). The property itself must ultimately either be transferred to (or for the use of) the ill, needy, or

infants for their care or be retained for their care. No other person may use the contributed property except as incidental to primary use in the care of the ill, needy, or infants. The organization may satisfy the requirement of this subdivision by transferring the property to a relative, custodian, parent or guardian of the ill or needy individual or infant, or to any other individual if it makes a reasonable effort to ascertain that the property will ultimately be used primarily for the care of the ill or needy individual, or infant, and not for the primary benefit of any other person. The recipient organization may transfer the property to another exempt organization within the jurisdiction of the United States which meets the description contained in paragraph (b)(1)(ii) of this section, or to an organization not within the jurisdiction of the United States that, but for the fact that it is not within the jurisdiction of the United States, would be described in paragraph (b)(1)(ii) of this section. If an organization transfers the property to another organization, the transferring organization must obtain a written statement from the transferee organization as set forth in paragraph (b)(4) of this section. If the property is ultimately transferred to, or used for the benefit of, ill or needy persons, or infants, not within the jurisdiction of the United States, the organization which so transfers the property outside the jurisdiction of the United States must necessarily be a corporation. See section 170(c)(2) and § 1.170A-11(a). For purposes of this subdivision, if the donee-organization charges for its transfer of contributed property (other than a fee allowed by paragraph (b)(3)(ii) of this section), the requirement of this subdivision is not met. See paragraph (b)(3) of this section.

(B) *Definition of the ill.* An ill person is a person who requires medical care within the meaning of § 1.213-1(e). Examples of ill persons include a person suffering from physical injury, a person with a significant impairment of a bodily organ, a person with an existing handicap, whether from birth or later injury, a person suffering from malnutrition, a person with a disease, sickness, or infection which significantly impairs physical health, a person partially or totally incapable of self-care (including incapacity due to old age). A person suffering from mental illness is included if the person is hospitalized or institutionalized for the mental disorder, or, although the person is nonhospitalized or noninstitutionalized, if the person's mental illness constitutes a significant health impairment.

(C) *Definition of care of the ill.* Care of the ill means alleviation or cure of an existing illness and includes care of the physical, mental, or emotional needs of the ill.

(D) *Definition of the needy.* A needy person is a person who lacks the necessities of life, involving physical, mental, or emotional well-being, as a result of poverty or temporary distress. Examples of needy persons include a person who is financially impoverished as a result of low income and lack of financial resources, a person who temporarily lacks food or shelter (and the means to provide for it), a person who is the victim of a natural disaster (such as fire or flood), a person who is the victim of a civil disaster (such as a civil disturbance), a person who is temporarily not self-sufficient as a result of a sudden and severe personal or family crisis (such as a person who is the victim of a crime of violence or who has been physically abused), a person who is a refugee or immigrant and who is experiencing language, cultural, or financial difficulties, a minor child who is not self-sufficient and who is not cared for by a parent or guardian, and a person who is not self-sufficient as a result of previous institutionalization (such as a former prisoner or a former patient in a mental institution).

(E) *Definition of care of the needy.* Care of the needy means alleviation or satisfaction of an existing need. Since a person may be needy in some respects and not needy in other respects, care of the needy must relate to the particular need which causes the person to be needy. For example, a person whose temporary need arises from a natural disaster may need temporary shelter and food but not recreational facilities.

(F) *Definition of infant.* An infant is a minor child (as determined under the laws of the jurisdiction in which the child resides).

(G) *Definition of care of an infant.* Care of an infant means performance of parental functions and provision for the physical, mental, and emotional needs of the infant.

(3) *Restrictions on Transfer of contributed property*—(i) *In general.* Except as otherwise provided in subdivision (ii) of this paragraph (b)(3), a contribution will not qualify under this section, if the donee-organization or any transferee of the donee-organization requires or receives any money, property, or services for the transfer or use of property contributed under section 170(e)(3). For example, if an organization provides temporary shelter for a fee, and also provides free meals to ill or needy individuals, or infants using food contributed under this section the contribution of food is subject to this section (if the other requirements of this section are met). However, the fee charged by the organization for the shelter may not be increased merely because meals are served to the ill or needy individuals or infants.

(ii) *Exception.* A contribution may qualify under this section if the donee-organization charges a fee to another organization in connection with its transfer of the donated property, if—

(A) The fee is small or nominal in relation to the value of the transferred property and is not determined by this value; and

(B) The fee is designed to reimburse the donee-organization for its administrative, warehousing, or other similar costs.

For example, if a charitable organization (such as a food bank) accepts surplus food to distribute to other charities which give the food to needy persons, a small fee may be charged to cover administrative, warehousing, and other similar costs. This fee may be charged on the basis of the total number of pounds of food distributed to the transferee charity but not on the basis of the value of the food distributed. The provisions of this subdivision (ii) do not apply to a transfer of donated property directly from an organization to ill or needy individuals, or infants.

(4) *Requirement of a written statement*—(i) *Furnished to taxpayer.* In the case of any contribution made on or after [Date which is 30 days after the issuance of these regulations by Treasury decision], the donee-organization must furnish to the taxpayer a written statement which—

(A) Describes the contributed property, stating the date of its receipt;

(B) Represents that the property will be used in compliance with section 170(e)(3) and paragraphs (b) (2) and (3) of this section;

(C) Represents that the donee-organization meets the requirements of paragraph (b)(1)(ii) of this section; and

(D) Represents that adequate books and records will be maintained, and made available to the Internal Revenue Service upon request.

The written statement must be furnished within a reasonable period after the contribution, but not later than the date (including extensions) by which the donor is required to file a United States corporate income tax return for the year in which the contribution was made. The books and records described in (D) of this subdivision (i) need not trace the receipt and disposition of specific items of donated property if

ey disclose compliance with the requirements by reference to aggregate quantities of donated property. The books and records are adequate if they reflect total amounts received and distributed (or used), and outline the procedure used for determining that the ultimate recipient of the property is an ill or needy individual, or infant. However, the books and records need not reflect the names of the ultimate individual recipients or the property distributed to (or used by) each one.

(ii) *Furnished to transferring organization.* If an organization that received a contribution under this section transfers the contributed property to another organization on or after [Date which is 30 days after the issuance of these regulations by Treasury decision] the transferee organization must furnish to the transferring organization a written statement which contains the information required in paragraph (b)(4)(i) (A), (B) and (D) of this section. The statement must also represent that the transferee organization meets the requirements of paragraph (b)(1)(ii) of this section (or, in the case of a ansferee organization which is a oreign organization not within the jurisdiction of the United States, that, but for such fact, the organization would meet the requirements of paragraph (b)(1)(ii) of this section). The written statement must be furnished within a reasonable period after the transfer.

(5) *Requirement of compliance with the Federal Food, Drug, and Cosmetic Act*—(i) *In general.* With respect to property contributed under this section which is subject to the Federal Food, Drug, and Cosmetic Act (as amended), and regulations thereunder, the contributed property must comply with the applicable provisions of that Act and regulations thereunder at the date of the contribution and for the immediately preceding 180 days. In the case of specific items of contributed property not in existence for the entire period of 180 days immediately preceding the date of contribution, the requirement of this paragraph (b)(5) is considered met if the contributed property complied with that Act and the regulations thereunder during the period of its existence and at the date of contribution and if, for the 180 day period prior to contribution other property (if any) held by the taxpayer at any time during that period, which property was fungible with the contributed property, complied with that Act and the regulations thereunder during the period held by the taxpayer.

(ii) *Example.* The rule of this paragraph (b)(5) may be illustrated by the following example.

Example. Corporation X a grocery store, contributes 12 crates of navel oranges. The oranges were picked and placed in the grocery store's stock two weeks prior to the date of contribution. The contribution satisfies the requirements of this paragraph (b)(5) if X complied with the Act and regulations thereunder for 180 days prior to the date of contribution with respect to all navel oranges in stock during that period.

(c) *Amount of reduction*—(1) *In general.* Section 170(e)(3)(B) requires that the amount of the charitable contribution subject to this section which would be taken into account under section 170(a), without regard to section 170(e), must be reduced before applying the percentage limitations under section 170(b). The amount of the first reduction is equal to one-half of the amount of gain which would not have been long-term capital gain if the property had been sold by the donor-taxpayer at its fair market value on the date of its contribution, excluding, however, any amount described in paragraph (d) of this section. If the amount of the charitable contribution which remains after this reduction exceeds twice the basis of the contributed property, then the amount of the charitable contribution is reduced a second time to an amount which is equal to twice the amount of the basis of the property.

(2) *Basis of contributed property which is inventory.* For the purposes of this section, notwithstanding the rules of § 1.170A-1(c)(4), the basis of contributed property which is inventory must be determined under the donor's method of accounting for inventory for purposes of United States income tax. The donor must use as the basis of the contributed item the inventoriable carrying cost assigned to any similar item not included in closing inventory. For example, under the LIFO dollar value method of accounting for inventory, where there has been an invasion of a prior year's layer, the donor may choose to treat the item contributed as having a basis of the unit's cost with reference to the layer(s) of prior year(s) cost or with reference to the current year cost.

(3) *Adjustment to cost of goods sold.* The donor of property which is inventory contributed under this section must make a corresponding adjustment to cost of goods sold by decreasing the cost of goods sold by the amount of basis determined under paragraph (c)(2) of this section.

(4) *Examples.* The rules of this paragraph (c) may be illustrated by the following examples:

Example (1). During 1978 corporation X, a calendar year taxpayer, makes a qualified contribution of women's coats which were section 1221(1) property. The fair market value of the property at the date of contribution is $1,000, and the basis of the property is $200. The amount of the charitable contribution which would be taken into account under section 170(a) is the fair market value ($1,000). The amount of gain which would not have been long-term capital gain if the property had been sold is $800 ($1,000 − $200). The amount of the contribution is reduced by one-half the amount which would not have been capital gain if the property had been sold ($800/2 = $400).

After this reduction, the amount of the contribution which may be taken into account is $600 ($1,000 − $400). A second reduction is made in the amount of the charitable contribution because this amount (as first reduced to $600) is more than $400 which is an amount equal to twice the basis of the property. The amount of the further reduction is $200 [$600 − (2 × $200)], and the amount of the contribution as finally reduced is $400 [$1,000 − ($400 + $200)]. X would also have to decrease its cost of goods sold for the year of contribution by $200.

Example (2). Assume the same facts as set forth in example (1) except that the basis of the property is $500. The amount of the first reduction is $200 [($1,000 − $600)/2].

As reduced, the amount of the contribution which may be taken into account is $800 ($1,000 − $200). There is no second reduction because $800 is less than $1,200 which is twice the basis of the property. However, X would have to decrease its cost of goods sold for the year of contribution by $600.

(d) *Recapture excluded.* A deduction is not allowed under section 170(e)(3) or this section for any amount which, if the property had been sold by the donor-taxpayer on the date of its contribution for an amount equal to its fair market value, would have been treated as ordinary income under section 617, 1245, 1250, 1251, or 1252. Thus, before making either reduction required by section 170(e)(3)(B) and paragraph (c) of this section the fair market value of the contributed property must be reduced by the amount of gain that would have been recognized (if the property had been sold) as ordinary income under section 617, 1245, 1250, 1251, or 1252.

(e) *Effective date.* This section applies to qualified contributions made after October 4, 1978.

§ 1.170A-11 [Amended]

Par. 4. Section 1.170A-11 is amended by adding the word ", and" to the end of paragraph (a)(3), by deleting paragraph (a)(4), and by redesignating paragraph (a)(5) as paragraph (a)(4).

This Treasury decision is issued under the authority contained in section 7805

of the Internal Revenue Code of 1954 (68A Stat. 917, 26 U.S.C. 7805).

Roscoe L. Egger, Jr.,
Commissioner of Internal Revenue.

Approved: January 13, 1982.

John E. Chapoton,
Assistant Secretary of the Treasury.

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